Excise tax reforms across ASEAN since the start of its Economic Community

Rob Preece

Abstract

In the lead up to the commencement of the ASEAN Economic Community (AEC), Preece (2018) highlighted a number of significant differences in the excise tax policies of the 10 ASEAN member countries,[1] and the potential impacts of these as well as proposing mechanisms to better coordinate excise tax policies. With the AEC entering its fourth year, the author has reviewed all changes to excise tax policies across the region to determine what the priorities for member countries are, and how these priorities are addressed, and whether these reforms are better aligning excise policy across ASEAN.

Introduction

Since the formation of the AEC on 31 December 2015, all member countries have made changes to their excise tax systems, and whilst many of these have been simple rate rises to certain products, there have also been a number of significant reforms made by several member countries to their excise tax policies. Some members have also attempted excise tax changes, particularly for sweetened non-alcoholic beverages, which have been rejected by their parliaments, and it is also important to reflect on these policies. After the first three years of closer economic integration, it is timely to look at these changes to excise policy and consider issues such as whether there have been changes to priorities, and whether such reforms are moving excise tax policies of member countries closer together or further apart.

This paper will initially provide a summary of all changes to excise tax systems across ASEAN since the start of AEC, followed by some analysis of those reforms of significance, such as new products becoming subject to excise taxation, updating the tax base, and restructuring excisable items. This analysis will be conducted in the context of not only whether the excise tax policies of the 10 member countries are beginning to better align, but whether reforms are also aligning around what are considered appropriate excise tax policy principles.

The most recent 'mapping' of the excise taxation policies was Preece (2018, pp. 65–92) who captured the goods and services, tax bases and tax rates of all excisable items across ASEAN. The mapping is structured around categories of goods and services. These categories included alcohol, tobacco, automobiles, motorcycles, fuels and non-alcoholic beverages, which are subject to excise in all or most ASEAN countries. The remaining categories of goods and services were then categorised as luxury items, environmentally harmful, nightclubs, a nd gambling and communications. As part of this study, this mapping has been updated to include all changes to excise tax policy across ASEAN and reflects member countries' excise tax systems as they stand on the 31 January 2019.

Following the remapping of excise taxation policy across ASEAN, Table 1 below was produced and contains a high level of the nature and extent of changes to excise tax policy by each member country. In the case of Brunei, Malaysia, the Philippines and Thailand, major excise reforms have been announced since the AEC commenced and, as such, a more detailed look at each of these has been included in Annexes A, B C and D to this paper.

Table 1: Summary of excise tax changes in ASEAN since the start of the AEC

Country	Changes	Notes
Brunei	• Addition of health-related goods to excise • Addition of environmental goods to excise • Adjustment for loss of customs tariff under AFTA • Increased rates for luxury goods (e.g. jewels, games, furs) • Doubling of rates on all alcohol and tobacco • Cars: reduced rate <2,000cc & increased rate >3,000cc	See Annex A
Cambodia[2]	• Beer excise rate increase by 20% • Other alcohol excise rate increase by 75% • Cigarette excise rate increase by 33%	From 1 April 2016
Indonesia[3]	• Two tobacco rates increases • New product: e-cigarette liquid	In 2016 & 2017 Set at 57%
Laos PDR[4]	• Alcohol excise restructured to beer; other liquor <20%; and other liquor >20% a/v • Rate increase for all alcohol (60–80%), tobacco (50%), fuel (8–49%) and entertainment services (double)	From 1 July 2018
Malaysia	• Alcohol excise rates increase and become full specific • New sweetened beverage excise MYR0.4/L in 2019	From 1 April 2016 See Annex B
Myanmar	• Adjustment to price tiers to bring in specific rates to higher priced spirits • Introduce specific rates to cigars • Introduce price tier based specific rates for wine • Remove diamonds and emeralds from excise tax	*Ad valorem* rate now starts for products >K26,000 per L K0.50 per stick Similar to spirits
Philippines	• 4% annual increases for alcohol and tobacco • Tax Reform for Acceleration and Inclusion (TRAIN): • New sweetened beverage excise • Restructure automobile excise • Road map of fuel excise increases	Republic Act 10351 See Annex C
Singapore	• Tobacco increase by 10%	2018 Budget
Thailand	• Consolidation of all excise law into single Act • *Ad valorem* tax base now suggested retail price • Simplification of alcohol excise tax system • Restructure of sweetened beverage excise	See Annex D
Vietnam	• Rate increases: • 1 January 2016 – beer, liquor, tobacco and gambling; • 1 January 2017 – beer; • 1 January 2018 – beer, liquor and tobacco • 1 January 2016 – auto excise restructure, and tax base now manufacturer/importer selling price5	'5-year plan' 2016–20206 of rate increases Auto excise move to engine size

From Table 1, alcohol taxes rose in every country except Singapore, which has not increased alcohol excise since 2014. Likewise, all countries except Malaysia increased tobacco taxes, again the last tobacco tax increase in that country was 2014. It is also worth noting that Cambodia and Malaysia have not had any excise rate increases on either alcohol or tobacco since April 2016, and that excise rate rises in the Philippines and Vietnam were set out in legislation passed in 2012 and 2014, respectively, and so known well in advance of the AEC.

Another product category that was the subject of active excise reform was automobiles. There was a complete restructuring of those taxes in the Philippines, Thailand and Vietnam, while some tax rate adjustments were made in Brunei for both smaller and larger engine vehicles, leaving vehicles with an engine size between 2,000 and 3,000 cubic centimetres (cc) unchanged.

Also active across the region were policy changes around sugar-sweetened beverages. For these types of products, new excise taxes were introduced in Brunei, Malaysia and the Philippines, while a major restructure of sweetened-beverage taxes was made in Thailand. The extent of these various automobile and sweetened-beverage excise reforms warrants further analysis as they seem to indicate certain trend in excise taxation emerging in the region.

The remainder of this paper, therefore, will examine some of these emerging trends under the context of reforms based on addressing aspects of harm to ‘health’ and the ‘environment’ as policy objectives.

Health: Reforms to sugar-sweetened beverages

The reforms to the taxing of these types of drinks include the introduction of an excise in Brunei Darussalam, Malaysia and the Philippines, although the tax will not commence in Malaysia until 1 April 2019. This brings the number of ASEAN member countries taxing sugary drinks to seven (out of 10). However, it should be noted that Indonesia and Vietnam attempted to introduce a new excise tax on sweetened beverages without success (Preece, 2018, pp. 103–104), which would have come into effect in this period if the laws were passed. Also noteworthy is that the Ministries of Finance of both countries have kept pursuing the policy, with Vietnam announcing a new proposal in 2017 for at least a new 10 per cent excise tax starting in 2019 (Nguyen, 2017), and Indonesia introducing new customs tariffs in 2015 that apply to imports of beverages.[7] The remaining member, Singapore, has now begun a review process on sugar intake with public consultations underway for options that include a tax on sugar-sweetened beverages (Ministry of Health, 2019), meaning these sweetened beverages have become a focus in the region.

In addition to new member countries introducing or discussing sugar-sweetened beverage taxes, Thailand has both expanded the range of sweetened beverages that will be subject to excise and restructured the tax, with a component of the rate being based on actual sugar content. This will see Brunei, Malaysia and Thailand taxing sweetened drinks based on sugar content, whilst the Philippines will apply excise based on the source of the sugar. Cambodia, Laos PDR and Myanmar continue to tax such drinks on their value. A summary of the taxation of sugar sweetened beverages is outlined in Table 2 below.

Table 2: Sweetened beverage excise policy across ASEAN members

Country	Sugar content	Tax per litre (USD) or ad valorem rate
Brunei	• 6 grams per 100 millilitres • > 7 grams per 100 millilitres (Soy milk based only)	$0.30 $0.30
Cambodia	• Not based on sugar content	10%
Indonesia	• *Attempted to add to Excise law in 2012 (rejected by Commission XI) and 2015 (rejected in 2016 Budget)* • *New customs tariffs: beverages 220210–220902* • *New customs tariffs: beverages 22029030–22029090*	*$0.22 (Proposed)* *10%* *20%*
Laos PDR[14]	• Not based on sugar content	5%
Malaysia	• From 1 April 2019: • 5 grams per 100 millilitres • > 12 grams per 100 millilitres (fruit/vegetable juice)	$0.10 $0.10
Myanmar	• Not based on sugar content	5%
Philippines	• Use natural sugars or artificial sweeteners • Use high fructose corn syrup • Use coconut sap sugar or non-caloric sweetener	$0.12 $0.24 $0.00
Singapore	• *Review and public consultation by Ministry of Health*	*N/A*
Thailand	• 6–8 grams per 100 millilitres • 8–10 grams per 100 millilitres • 10–14 grams per 100 millilitres • >14gm grams per 100 millilitres	$0.003 + 14% $0.009 + 14% $0.015 + 14% $0.031 +14%
Vietnam	• *National Assembly Economic Affairs Committee Resolution 56/NQ-CP 2014 rejects proposal* • *New proposed announced 15 August 2017*	*10% (Proposed)*

An excise tax based on sugar content rather than value is also the recommended approach of the World Health Organisation (WHO). The WHO (2016, p. 19) provides two options, depending on the capabilities of the national tax agency concerned. It suggests an excise rate based on sugar content is best practice but this option requires that the tax agency has the capability to ensure compliance, whereas the other option could be a tax levied on the volume of product, such as an excise rate set at 'per litre' and could be adopted in developing economies where the tax agency may not have the skills and resources to administer a more complex rate. Where possible, a country should avoid *ad valorem* of value-based excises as they are more easily manipulated by manufacturers.

The principle is for the excise tax to increase the price of the sweetened beverage to reduce consumption of sugars to ranges that organisations such as the WHO believe reduce associated health risks. As at 2017, sugar intake from just sweetened beverages across ASEAN members was put between 10 per cent of all sugar intake in Indonesia, up to 25 per cent in the Philippines (Salleh, 2018). The WHO (2015, p. 16) now recommends a reduction in sugar intake in the entire population, not to a prescribed amount per day, but rather that intake of sugar be less than 10 per cent of total daily energy intake, and that 'free sugars', which are 'added sugars' such as sweetened beverages, be less than 5 per cent of total daily energy intake. This policy also means that, in addition to reduced levels of sugar, there is also a positive consequence of higher percentages of nutrition in a diet.

For this principle to work effectively, consumers also need to be sensitive to the price increases that are likely to occur as manufacturers 'pass through' the additional tax cost. This price sensitivity can be measured and is known as the 'price elasticity', where a fall in consumption at a rate greater than the price increase means the product is 'price elastic' and the effect of the excise tax on reducing consumption is therefore greatest. Alternatively, where consumption falls to a lower rate than the price rise itself, these products are known as 'price inelastic' and, while consumption may not fall to the extent desired, such products are seen as good tax revenue sources. In terms of price elasticity studies in ASEAN, there is little in the literature at present; however, Preece (2012, p. 66; 2013 pp. 29–31) found that, globally, price elasticities for sweetened sodas range markedly from –0.15 to –1.90, with Thailand estimated by industry to be around –1.2 to –1.3. This means that, for Thailand, a 10 per cent increase in prices results in a fall in consumption by 12–13 per cent.

With the growth in significance of sweetened beverage excises across ASEAN, the issue of whether the region needs to look at developing and implementing regionally based guidelines to members on such excises should be raised. In this case, ASEAN should be looking to the health of its community population. It should avoid loop holes and possible distortions in the non-alcohol beverage markets, where excise tax structures create opportunities for low cost/high sugar content drinks to circulate across the region. A starting principle could be that using sugar content as a basis for classification will mean that increased sugar content will result in higher consumer pricing.

Interestingly, Brunei Darussalam also introduced an excise on 'sugar and cocoa products' at a rate of 3 per cent (Ministry of Finance, 2017). While not based on sugar content, this new tax shows that there is recognition in this policy that beverages are not the only source of sugars in a diet. Of note (and a policy which may be worth noting), the same Duty Order introducing sugar-based excise taxes also introduced a new tax on monosodium glutamate (MSG) at a rate of 30 per cent.

Health: Reforms to tobacco excises

Since the start of the AEC, eight of the 10 member countries have increased excise tax for tobacco products, with only Cambodia and Malaysia not raising rates. The extent of these rates rises were found to be quite varied and are outlined in Table 3 below.

Table 3: Outline of tobacco excise tax changes since the AEC

Country	Tobacco Excise Rate Change	Notes
Brunei	• Effective 100% increase in rates • New product: e-cigarette liquid set at 100%	Excise (Duty Order) 2017
Cambodia	• Effective 33% increase in rates	Anukret 92/ 2016
Indonesia	• Effective 23% increase (from two increases) • Effective 39% increase (from two increases) • New product: e-cigarette liquid set at 57% • Reduction to 18 classification tiers (from 1/1/16)	Based on SKM I (highest retail cost) Based on SKM II (lowest retail cost) 146/PMK.010/2017 198/PMK.010/2015
Laos PDR	• Effective 50% increase in rates	0169/TD 2018
Malaysia	• No increase	Last increase in 2014
Myanmar	• Effective 100% increase (bottom end) • Effective 50% decrease (top end) • Introduce specific rates to cigars	Reflects a reduction in the number of price-based tiers Union Tax Law 2018/19
Philippines	• Effective 67% increase (bottom end) • Effective 20% increase (top end) • Removal of price-based tiers and cessation of hand-made versus machine made tax rate differentials	Act 10963 (in addition to previous increases under Act 10351)
Singapore	• Effective 10% increase	2018 Budget
Thailand	• Restructure of tobacco excise into two-tier cigarette • Above THB 60 per pack retail • Up to THB 60 per pack retail • Introduce mixed *ad valorem* + specific rate • Effective 10–50% increase dependent on retail price of product (NB some high value products 16% decrease) 8	Excise Tax Act BE 2560
Vietnam	• Effective 7.1% increase (from two increases)	Law 106/2016/QH13

Table 3 highlights not just the extent of tobacco excise rate rises, but also shows the results of important restructuring of tobacco taxes across the region designed to simplify and bring equity into the taxation of tobacco. Complex structures have been identified by Preece (2018, pp. 69–70) that were likely to have been designed to support certain local industry sectors and ensure a range of affordable cigarettes were available in the market.

Neither of these policy positions are sustainable and they have seen the tobacco tax systems of Indonesia, the Philippines, Myanmar and Thailand transitioning to more simplified systems where tobacco is taxed on its harm, irrespective of factors such as support of domestic production, traditional production, or regressivity from taxing a product the same irrespective of its value. However, as part of its restructuring, Thailand has included a 'mixed' specific tax rate and one based on an *ad valorem* rate, and further for a transition period, included two excise tax tiers for cigarettes based on retail pricing and rate differentials will apply for those cigarettes retailing up to, and to those above THB60 per pack.

Thus, these policy transitions away from *ad valorem* rate taxes to specific rate excises, in conjunction with various effective rate rises, can be seen as a positive trend across the region in terms of health-based outcomes.

Health: Developments in alcohol excise taxation

Also related to health is the taxation of alcoholic beverages. Since the start of the AEC, seven member countries have applied an excise rate increase to all categories of alcoholic beverage, while one (Malaysia) limited its excise rate increase to just beer. Indonesia and Singapore are the only members not to make any increases: Indonesia last raised excise rates in January 2014,[9] while Singapore's last rate rise was part of its 2014 Budget.

Beyond simple rate rises, there were also other restructures. Laos PDR has reclassified non-beer alcoholic beverages of a strength up to 15 per cent alcohol by volume (a/v) to now be of a strength up to 20 per cent a/v. This brings the structure into line with both Indonesia and Vietnam, where alcohol strength is used for product classification, with a 20 per cent a/v as a benchmark. In the Philippines, separate classifications for beer that are retailed up to and over Peso 50.60 per litre have been removed so that all beer irrespective of value pays the same excise tax rate.[10]

Use of specific rates, which is seen by the WHO (2010, p.16) as the most appropriate approach to alcohol taxation, has been expanded in the region with Myanmar now applying specific rates to distilled spirits and wine, albeit product classification for excise being based on its value.[11] Only beer remains taxed on an *ad valorem* basis, with the exception of wines valued in excess of K29,000 per litre or distilled spirits valued in excess of K26,000 per litre. This approach of increasing specific tax rates applying to higher pricing categories and with *ad valorem* rates used for high-end brands, seeking to retain a degree of progressivity in the alcohol tax system. With this reform in Myanmar, it is only Cambodia, Laos PDR and Vietnam with fully *ad valorem* alcohol excise tax systems.

However, the most comprehensive alcohol excise reform in the region was undertaken by Thailand. In summary, Thailand:

- introduced a simple 'per litre of alcohol' rate, which replaced a complex system that required taxpayers to undertake a calculation on a 'per litre' and 'per litre of alcohol' basis and then select the calculation that delivered the higher amount
- removed a 'high alcohol content surcharge' for each product category
- changed the tax base of the *ad valorem* component of the excise from 'last wholesale price' to 'suggested retail price'.

- The effect of these changes is a greater simplicity and certainty being introduced once the taxpayer has agreed with the Excise Department on the cost structure up to the retail level that will be the basis of the *ad valorem* component calculation. It is also argued, as in the Philippines, where 'retail price' is the basis for distilled spirits excise, that a greater level of transparency exists, given that retail prices are highly visible to all parties.

Environment: Automotive excise addressing emissions

The most significant reform in this area is that of Thailand, as outlined above, in its restructure to classify automobiles for excise tax purposes by the level of CO_2 emissions, rather than the more common approach of classification by engine displacement. Figure 1 outlines this new approach, where the key aspects include the four tiers of emission levels (where excise tax rates increase with increasing emissions) and further discounted rates applied if the vehicle uses E85 fuel[12] or natural gas, or is a hybrid using an electric charge for power as well as petroleum fuel. The structure does, however, exclude those passenger vehicles with engine sizes exceeding 3,000 cubic centimetres (cc) and pickup trucks greater than 3,250 cc, although pickup trucks continues to enjoy substantial rate discounts over passenger cars.

Table 4: Excise rates for automobiles

Thailand excise tariff: Automobiles				
Passenger cars	**Rate**			
<100g/km CO_2	10%	*50%		1. E10/E20/E85/NGV N/a
101–150g/km CO_2	30%	*50%		2. E85/NGV <3,000cc 25%, Hybrid <3,000cc 20%
151–200g/km CO2	35%	*50%		3. E85/NGV <3,000cc 30%, Hybrid <3,000cc 25%
>200g/km CO_2	40%	*50%		4. E85/NGV <3,000cc 35%, hybrid <3,000cc 30%
Pickup				
<200g/km CO_2			3.18%	25% if pax pickup
>200 g/km CO_2			5.18%	30% if pax pickup
>3,250cc			50.00%	

Source: Thai Excise Department and author.

The emissions-based structure of Table 4 is set to extend to motorcycles, possibly as early as 2019 (Chantanusornsiri, 2018), who also notes that the 2016 reforms to automobile excise have not had a marked impact on retail prices and expects the same for motorcycles.

In addition to Thailand, Vietnam also introduced a ‘road map’ of reforms to automobile excise tax that are clearly targeting environmental objectives. The following measures took effect on 1 January 2016:[13]

- Rate cuts were made to smaller engine vehicles where those vehicles with engine sizes below 1,000 cc fell from 45 per cent to 25 per cent; 1,000–1,500 cc fell from 45 per cent to 30 per cent; and those with engine sizes over 1,500 cc, but less than 2,000 cc rates were cut from 45 per cent to 40 per cent
- Rates increased for larger engine vehicles, with vehicles of an engine size 2,000–3,000 cc moving from 50 per cent to 60 per cent and others moving from 60 per cent to 75 per cent; however, these tax-rate increases were phased in over three years and came into full effect on 1 January 1 2018
- Where any of these vehicles above run on a clean burning alternate fuel (except bio fuels), then 70 per cent of the prescribed applies, and where a such a renewable is the fuel source, then 50 per cent of the prescribed rate applies
- Electric cars have an excise tax rate of 25 per cent (except for electric pickup trucks and busses that will pay 10% excise, and electric mini-busses that will pay at 15%).

Environment: Other reforms

Other environmental-based excise reforms were noted, namely Brunei Darussalam, which introduced an excise tax of 3 per cent on plastic products to ‘support the efforts of the Department of Environment, Parks and Recreation in reducing the amount of plastic waste (Ministry of Finance, 2017). Similarly, a new excise tax of 5 per cent was placed on ‘rubber products’. However, there have been what appears now to be two failed attempts by the Ministry of Finance in Indonesia for an IDR 200-per-bag excise on plastic bags (Gokken, 2018). The measure has been opposed by both plastic manufacturers and the Department of Industry on the grounds of economic impact, despite Finance Ministry studies believing the new excise would reduce plastic waste by 30 per cent by 2025 and generate annual additional excise revenue of IDR 500 billion (Jakarta Post, 2018).

Conclusion

It would appear that excise tax policies of the ASEAN member countries are moving closer together in terms of products subject to excise taxation and, in some cases, the tax base that is applied to those products. In addition, particularly in relation to alcoholic beverages, sweetened beverages and automobiles, there are signs of movement towards more appropriate tax bases in relation to the product being taxed. In these cases, the tax bases used are becoming more closely aligned with the behaviour or harm that is being addressed. There is still some way to go in terms of attaining a more comprehensive and more formalised coordination approach, but it must be highlighted that excise tax policies across the region can be more appropriately described as ‘converging’ rather than ‘diverging’, which must be seen as a positive for the region.

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Notes

1 ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand & Vietnam.

2 Anukret 192 on Adjustment Customs Duty and Excise Tax (2016) & GDT Notification 4227

3 See Finance Minister Regulations 198/PMK.010/2015 & 146/PMK.010/2017 (which includes e-cigarettes)

4 Regulation No. 0169/TD 2018 which als0 includes rate rises for 2020

5 Law No Law No 106/2016/QH13 includes changes to tax base to be manufacturer/import selling price provided it is not to an affiliated customer

6 Law No. 70/2014/QH13 Amendments to some articles of the Law on Special Excise Duty

7 See Regulation 132/PMK.010/2015 customs tariff of 10% for all non-alcoholic beverages except RTDs at 20%

8 TTM Report of 2017 see pages 13-15

9 See Finance Minister Regulation 207/PMK101/2013 of 31 December 2013

10 See Section 143, Title VI of the Tax Code of the Philippines.

11 See Union Tax Law 2018-19

12 E85 is a blend of fuel containing 85% ethanol

13 Law 108/2015/ND-CP

14 See Item 113, Schedule 3 of the Commercial Tax which the author considers akin to an excise tax

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Annex A

Brunei Darussalam

Effective from 1 April 2017, amendments to both customs and excise duty orders were made to reflect a number of government policies. In an accompanying press release, the new customs and excise duties were announced to give effect to the ASEAN Free Trade Agreement (AFTA) by removing import duties and, where needed, to then capture those goods on which duties were sought by inserting them into the excise tax system (Ministry of Finance, 2017). However, in some cases those goods identified as ‘encouraging the development of the private sector’ or ‘alleviating the cost of living for certain groups’, the duty rates when incorporated within the excise tax system where given lower duty rates, for example machinery or car parts, which were reduced from 20 per cent to 5 per cent. Other goods, such as electrical appliances, watches and tools, were given the same excise rate as had applied as a customs duty, whilst other more luxurious products, such as video games, mobile phones, jewellery and perfume, were give tax rate rises when transferred.

The other key policy announced in the press release relates to the ‘enhancing of safety of society’ through both the Ministry of Health’s *Towards a Healthy Society* initiative and the Department of Environment, Parks and Recreation program to ‘encourage recycling and reduce pollution’. In this regard, new excise items (sugar-based beverages, MSG, cocoa and vape juice for e-cigarettes) were introduced in the Excise orders to improve health while, at the same time, doubling the existing excise on alcohol and tobacco. In terms of the environment, new excise taxes were introduced on a range of plastic and rubber goods.

Annex B

Malaysia

Malaysia finished 2018 with a major tax reform, or ‘tax reform rewind’. The Goods Services Tax (GST) introduced in 2015 to replace Sales Tax and Service Tax, has been repealed and the former Sales Tax and Services Tax have been reintroduced and commenced 1 September 2018. The rates for excisable goods are 10 per cent, up from 6 per cent as levied under the former GST with no seeming resultant adjustment in excise to offset price changes. Interestingly, there continues to be no excise levied on fuel products; however, the newly reintroduced sales tax will levy that tax on fuels on a specific-rate basis, rather than an *ad valorem* basis, which is how excise taxes are generally applied.

Prior to the GST repeal, *Excise Duty Order 2017* came into effect on 1 April 2017, with a range of excise taxes on alcoholic beverages worthy of note. For beer and wine, the former tax base of ‘per litre’ was amended to align with distilled spirits as a ‘per litre of alcohol’ (LAL) basis, better reflecting the externalities of consumption (WHO, 2010, p. 16). Further, a potential loop hole has been closed in which bulk high-strength spirits, which paid excise at MYR 60 per LAL rather than the MYR 150 per LAL for packaged spirits.

However, a significant reform to excise will come into effect on 1 April 2019 with the implementation of a MYR 0.4 per litre ‘sugar tax’ on non-alcoholic beverages that contain more than five grams of sugar or sugar-based sweetener per 100 millilitres (ml), or fruit and vegetable juice containing more than 12 grams per 100 ml. The measure will be implemented by an addition of these new items to the existing Excise Duty Orders (Treasury, 2018, p. 22).

Annex C

The Philippines

In 2017, the Philippines Congress passed *Republic Act No. 10963,* known at the Tax Reform for Acceleration and Inclusion (TRAIN). TRAIN is a comprehensive reform covering many aspects of the National Internal Revenue Code (NIRC) of the Philippines, with significant reforms being made to Title VI ‘Excise Tax on Certain Goods’.

These reforms set out a road map, through to 2023, of excise tax rate increases for alcohol and tobacco products, with four per cent increases to the 2023 rates every year after commencing 1 January 2024. Streamlining of beer and cigarette excises structures continue from the 2012 reforms, with beer now having a single excise rate irrespective of value, and cigarettes having a single excise rate irrespective of whether they are made by hand or by machine. The main reforms, however, are to fuel, automobiles and non-alcoholic beverages.

The TRAIN reform will see the raising of tax rates on hydrocarbon fuels for the first time since 1997, which, due to these rates not rising, inflation has cost the Philippines budget some P140 billion (Department of Finance, 2017). The three main fuel types of diesel, gasoline and LPG will also be subject to a road map of rate increases through to 2020 and the new fuel excise regime under TRAIN is outlined in Table 1 below. The increased rates of fuel excise are to be accompanied in the law by compliance measures to address the increased risk of tax evasion and include the introduction of a ‘fuel marker’ scheme in which chemicals are added to duty paid fuel to distinguish it from non-duty paid fuels in the market, and this is expected to commence in 2019 (Padin, 2018).

Table 1: Philippines ‘road map’ for fuel excise increases – Pesos per litre

Fuel Type	2018	2019	2020
Diesel	2.5	4.6	6
Gasoline	7	9	10
LPG	1	2	3
Other: **Avgas** **Kerosene** **Naptha** **Lubricant oil** **Ashphalt** **Parafin wax** **Petcoke**	 4 3 7 8 8 (per kg) 8 2.5		

Source: Author, Department of Finance.

In relation to automobile excise, TRAIN somewhat restructures the tax regime from a 'marginal rate' system based on a vehicles value, to a 'flatter' or more simplified banded structure, again based on a vehicles value rates with increasing *ad valorem* rates. The changes are summarised in Table 2 below. In addition, the highest excise rate of 50 per cent will apply to vehicles valued over four million pesos, up from two million pesos, where value will continue to be the Net Manufacturer's or Importers Selling Price (NMISP).

The restructure is expected to raise additional revenue from lesser valued vehicles, and likely reduces excise taxes on more luxury cars (Adrian, 2018). However, the government has argued that, overall, the TRAIN package with its cuts to personal income tax, any rises to prices in the lower of the car market have been off-set (Department of Finance, 2017).

From an environmental perspective, hybrid vehicles, defined as being powered by electric energy in combination with gasoline or diesel, will have their effective excise rate halved and those purely electric powered vehicles will be exempt from excise tax.

Table 2: Philippines reform of automobile excise from 2018

NMISP	Old Rate	NMISP	New Rate
< P600,000	2%	< P600,000	4%
P600,000–1,100,000	2%	P1,000,000–2,000,000	10%
P1,100,000–2,100,000	P112,000 + 40% of that > P1,100,000	P2,000,000–4,000,000	20%
> P2,100,000	P512,000 + 60% of that > P2,100,000	> P4,000,000	50%

Source: Author, Department of Finance.

The final TRAIN reform of significance in terms of excise taxation is that of a new tax that is applied to 'sweetened beverages'. From 1 January 1 2018 there have been three categories of sweetened beverages subject to excise for the first time as follows:

- Using purely caloric sweeteners (natural sugars) and purely non-caloric sweeteners (artificial sweeteners) or a mix of caloric and non-caloric sweeteners – P6 per litre
- Using purely high fructose corn syrup or in combination with any caloric or non-caloric sweetener – P12 per litre
- Using purely coconut sap sugar and purely steviol glycosides (non-caloric sweetener) – Exempt

The basis for this reform is explained as being a move to address the 'worsening numbers of cases of diabetes and obesity' by 'curbing consumption of sugar-sweetened beverages' (Department of Finance, 2017). In terms of structuring the new excise, the department has based the term 'beverage' on the definitions as set out be the Food and Drug Administration (FDA) so as to capture 'liquids, powders, and concentrates' and adopted for the law and regulations, the following foods categories as set out in the *Codex Alimentarius Food Category Descriptors,* also used by the FDA:

- sweetened juice drinks
- sweetened tea
- all carbonated beverages
- flavoured water
- energy and sports drinks
- other powdered drinks not classified as milk, juice, tea and coffee
- cereal and grain beverages
- other non-alcoholic beverages that contain added sugar.

Similarly, coconut sap sugar is required to meet the specifications of the Bureau of Agricultural and Fisheries Standard 76:2010 ICS 67.180 to be eligible for tax exemption.

Thus, the Philippines now joins Malaysia and Brunei Darussalam in introducing a new excise on sugar sweetened non-alcoholic beverages in the past two years.

Annex D

Thailand

Thailand has perhaps undertaken the most comprehensive reform of excise taxation with the passage of the *Excise Act BE 2560 (2017),* which has codified all of Thailand's former seven excise-related Acts into a single piece of law. This provides consistency across the taxation of those excisable goods and services, as well as simplifying the oversight of excise law.

A key reform of note was that of transforming the tax base for all *ad valorem* excise goods, and the *ad valorem* component of those 'mixed' rates, changing from an ex-factory sales value (or cost insurance freight + Import tariffs for like imports), to one of a suggested retail price (SRP). The exception to this is alcoholic beverages which have had the *ad valorem* component of their excise rate based upon the last wholesale selling price since 2012.

The SRP is calculated by reference to the regulations and requires excise payers to self-assess a value based on a 'production cost' plus an 'administration cost' plus a 'standard profit', all net of the VAT, and must not be below the selling price to customers. Such valuations can be approved by the Excise Department with rules providing for methods to confirm valuation.

The new Excise Act has also restructured alcohol taxes. Whilst a mixed *ad valorem* and specific-rate approach remains, the former specific rate was an option of a 'per litre' or 'per LAL' tax base, whichever delivered the higher amount, has been replaced with a simple 'per LAL' rate. An additional 'high strength levy' applying to beers greater than seven per cent alcohol by volume (ABV), wine greater than 15 per cent ABV and spirits greater than 45 per cent ABV has been scrapped, becoming redundant with a pure 'per LAL' rate in place. Thus, certain complexities have been removed from the taxation of alcohol.

Also restructured was the excise applying to non-alcoholic beverages. From the start of the new law, such beverages began paying excise on a mixed *ad valorem* and specific-rate basis, with the specific-rate component aligning with sugar content. Mineral and soda waters without added sugar will continue to be subject to excise at a rate of 14 per cent of SRP; however, other beverage categories (sweetened sodas and sweetened juices and drinks) have been split into bands based on content measured per 100 ml. Products with less than six grams per 100ml will only pay an *ad valorem* rate, but those above will then incur an additional specific rate that increases as the sugar content increases. The industry and consumers have been given until 2023 until the full policy is implemented, with a road map created in the regulations that sees rates rising every two years, while at the same time the maximum sugar content that attracts the highest tax rate is lessened (Chantanusornsiri, 2017).

However, it also needs to be noted that the passage of the *Excise Act BE 2560* followed only 15 months from the significant restructure of the automobile excise taxes, which essentially had commenced on the first day of the AEC. These automobiles excise reforms, approved by the Cabinet in 2012, move classification for excise tax purposes to be based on CO2 emissions rather than engine size, and providing further discounted excise tax rates when clean burning energy sources are used as fuel (FIA, 2015). Thus, the objective of the reforms is to both promote the development of technology within vehicles that reduce emissions without impacting performance, and encourage further development of cleaner alternate fuel sources.