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The Structure of State Levies on Tobacco: A Comparative Study of Indonesia and Thailand

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The Structure of State Levies on Tobacco: A Comparative Study of Indonesia and Thailand
Authors: Yolanda Vanessa and Murwendah (pp. 145-151)

On page 151 (left section), the sub-heading title was written "The Structure of State Levies on Tobacco in Indonesia". The sub-heading title should be written "The Structure of State Levies on Tobacco in Thailand".

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Abstract. Since its introduction in more than two decades ago, tobacco control policy has been adopted worldwide notwithstanding their noble purpose and mission. Low and middle-income countries have seen more struggles and challenges in comparison to high-income countries. Using Indonesia and Thailand as cases in point, this study is aimed at analyzing the structure of state levies in both countries and propose alternative state levies on tobacco for Indonesia based on lesson-learned from Thailand. Thailand is acknowledged as one of the countries that has successfully implemented state levies as an instrument to control tobacco consumption over the past several decades. This study employs a qualitative approach. Data on policy in Thailand are collected by means of literature study while that on Indonesia are collected through field observation and in-depth interviews. The findings show that Thailand imposes more variety state levies on tobacco that leads to higher tax burden to smokers and deemed capable of distorting their choices in smoking. A different case exists in Indonesia where state levies policy reflecting a non-optimal rate, so that is a merely significant source for state revenue, without any real impact on smoking prevalence in Indonesia. Both countries impose three identical levies, namely excise tax, VAT, and cigarette tax. Reflecting on the policy implementation in Thailand, Indonesia might be beneficial to adopt VAT on cigarettes with a multi-stage levy mechanism, a significant increase in tobacco excise tax rate, and other types of levies at the local government level by optimizing the application of the earmarking tax concept in terms of spending.

Keywords: Tobacco Tax Policy, State Levies, Indonesia, Thailand

Introduction

Cigarette market in Indonesia is notorious for its growth and impact on health. In 2018, World Health Organization (WHO) placed Indonesia as the second largest in the world behind China that was marked with the highest cigarette sales volumes in ASEAN (Tan and Dorotheo, 2018). Based on the data provided in The Tobacco Control Atlas in ASEAN Region 2018, 10% of smokers in the world live in ASEAN. Figure 1 presents its distribution per country whereby Indonesia shows superiority in numbers compares to its fellow ASEAN countries. The closest country, the Philippines, is still a quarter less than Indonesia’s 65,188,338 young adult smokers. In addition to having the highest prevalence of adult smokers in the world, Indonesia also has the highest smoking prevalence in Southeast Asia (Tan and Dorotheo, 2018).

The cigarette industry remains a conundrum for government and business alike, at times creating an impasse between national revenue and health promotion efforts. Despite its negative impact on health, the cigarette industry is renowned for their labor-intense job which products contribute to tax revenue through, among others, excise tax on cigarette (The Ministry of Labour of Republic of Indonesia, 2019). It is widely accepted and proven that individuals...
Consuming cigarettes are more prone to critical illnesses such as lung cancer and heart attack, as well as procreation-related issues such as impotence, fetal disorder and pregnancy disorder, even fatality. It makes the tobacco epidemic as one of the biggest public health threats in the world by killing more than 7 million people each year. More than 6 million of these deaths are individuals who consume tobacco directly and around 890,000 deaths are passive smokers (WHO, 2019a). Several factors that causes the increasing prevalence of tobacco consumption in population is the high rate of population growth, massive advertising, promotion and cigarette sponsors, lack of public knowledge of the dangers posed by tobacco consumption, and the relatively low price of cigarettes (Kosen et al., 2017). In relation to the price of cigarettes, WHO recommends the implementation of tax instruments to reduce the level of affordability in cigarette consumption (U.S. National Cancer Institute & WHO, 2016).

From public health and finance perspectives, higher tax on tobacco will reduce cigarette consumption and also increase tax revenues, as shown in Taiwan case (Jha & Chalopuka, 1999; Jha & Chaloupka, 2000; Lee et al., 2005; IARC, 2011; Chaloupka et al., 2011). Lee et al. (2005) points out that tobacco control policy by way of increased cigarette price is expected to make cigarettes less affordable particularly to adolescents, thereby reducing cigarette consumption. Furthermore, the increase in tax on tobacco, provided that it is proportionally larger than the decline in cigarette consumption, shall lead to the increase in tax revenue, eventually reducing not only the current deficits of National Health Insurance, but also the potential damage and death caused by smoking. Thus, the government is expected to implement tobacco control policy through an increase in cigarette price. Economists in general recommend the use of tax collection and other state levies since they are considered more efficient to reduce externalities in comparison to government regulation on externalities (Rosdiana & Irianto, 2012). However, higher tax is not the solution for all problems (Hoe et al., 2019). To successfully implement tobacco control through taxation, it is necessary to have a holistic taxation system and awareness that tax rate is not the only determinant to achieve the goal (Sarntisart, 2011; Hoe et al., 2019).

Tobacco control policy has been adopted worldwide. However, low-income and middle-income countries, in particular, are constantly facing a major challenge in implementing the policy to a successful outcome (Lee et al., 2012; Bump & Reich, 2013; Hoe et al., 2019; WHO, 2019b). The decline of tobacco consumption in high-income countries leads to the shifting of tobacco epidemic to middle-income and low-income countries, marked by market expansion by transnational tobacco companies to these countries (Bump & Reich, 2013). As one of the countries on the receiving end of the aforementioned shift, Indonesia experiences immense tobacco epidemic, high influence of tobacco industry, weak political will, and inexplicable failure in the ratification of WHO Framework Convention on Tobacco Control (FCTC) (Tan & Dorotheo, 2018).

Contrary to its fellow Association of Southeast Asian Nations (ASEAN) members, such as Brunei Darussalam, Cambodia, Laos PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, Indonesia fails to ratify WHO FCTC, yet is determined to utilize tax instrument to control the prevalence of smoking. The state levies on tobacco stipulated by the Government of Indonesia consist of excise tax, Value Added Tax (VAT), and cigarette tax. Excise tax and VAT are central taxes while cigarette tax is a local tax. Conceptually, excise tax is levied on certain goods and/or activities (Sommerfeld et al., 1982). According to Cnossen

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Figure 1. Distribution of Total Adult Smokers in ASEAN Countries

Source: The Tobacco Control Atlas: ASEAN Region, Fourth Edition, 2018
(2005), the purpose of excise collection focuses more on the function of regulatory. The following are three types of excise tax rate according to Purwito (2010): (1) ad valorem; the rate system determining the amount of tax to be levied based on a certain percentage of the value of the product or the selling price; (2) specific; the rate system determining the amount of tax to be levied based on each unit of goods/product or unit price on the goods; and (3) compound; the combination of ad valorem and specific rates.

In contrast to excise tax, VAT is essentially sales tax levied multiple times (multi-stage levy), but merely on the basis of additional value on all production and distribution chains (Rosdiana, Irianto, & Putranti, 2011). Pomp and Oldman in Lang (2009) describe that VAT is generally intended to tax personal consumption in comprehensively, neutrally and efficiently matter. In general, with a consumption tax the tax burden is divided amongst individuals according to the degree in which they make use of the output of society. Pandiangan (1993) describes the rate contained in the VAT, namely: (1) public rate, where the rate shall be equal, namely 10% for all VAT objects, (2) rate included in the price, where the rate shall be recalculated, and the total shall be equal to 10/110 (provided that the applicable rate is 10%) of the price or payment received, and (3) effective rate, that is commonly used for certain VAT objects or subjects. Tait (1988) adds that effective rate does not allow a full claim of Input Tax on VAT. Instead, VAT is imposed on the total value of the sale. According to the International Fiscal Association (in Rosdiana, Irianto & Putranti, 2011), other than being levied on multiple stages, sales tax may also be levied merely on the production or distribution chain of the commodities. This system is known as a single stage tax collection.

VAT as a type of central tax that has different legal characteristics from local tax. Local tax is a tax levied by a region based on the tax regulation established by the region for the benefit of financing the region as a public legal entity (Darwin, 2010). According to Davey (1998), local tax can be interpreted as: (1) tax levied by the local government under regional regulation; (2) Tax levied under national regulation but the tariff shall be determined by the local government; (3) Tax levied and/or determined by the local government; (4) Tax levied and administered by the central government but the revenues are granted to, shared with, or burdened with additional levies by the local government. For several mobile tax bases, a simple alternative to local tax administration is the concept of piggyback tax on the national tax base. With such concept, the distribution of provincial tax revenue will match the revenue from tax sharing (Ter-Minassian & International Monetary Fund, 1997). According to Martinez-Vazquez et al. (2006), taxation on a piggyback basis is an approach of taxation where the local government "piggybacks" or imposes tax to the tax levied by the central government.

In relation to the aforementioned implementation of levies in Indonesia, it is evident that there is an upward trend every year for revenues obtained from state levies on cigarettes as presented in Figure 2. The upward trend in the realization of revenues obtained from state levies on cigarettes in Indonesia is in fact directly proportional to the trend in smoking prevalence in Indonesia (Figure 3).

![Figure 2. The Realization of State Levies Revenue on Tobacco in 2013-2017 (in trillion IDR)](image)

![Figure 3. Adult Smoking Prevalence in Indonesia in 1995-2018 (Aged 15 years and over) (%)](image)

Source: The Tobacco Control Atlas: ASEAN Region, Fourth Edition, 2018; Basic Health Research of Indonesia, 2018

The factors influencing the upward trend are the increase in cigarette production and the adjustment policy on excise tax rate for tobacco products and the basic prices of taxable goods, an effort to eradicate counterfeit excise stamps. In fact, excise tax is an instrument to control cigarette consumption. Thus, ideally its success is determined by the decline in cigarette consumption instead of the increase in state revenue. Consistently, previous studies suggested that tax instruments in tobacco control should ideally reduce the prevalence of smoking and increase in state revenue from taxation at the same time. A contrast condition occurs in Indonesia whereby the purpose of state levies to reduce tobacco consumption has not led to a decrease in cigarette consumption.

A study by Barber dan Ahsan (2009) reveals no significant effect of the increase in tobacco excise tax rates on health in Indonesia, considering that the government has modified the rate system based on revenue and employment target. In addition, the rate system applied in Indonesia was a considerably complex multi-tiered system, imitating the less efficient ad valorem system (Southeast Asia Tobacco Control Alliance, 2019). Even though Indonesia currently impose a specific rate in excise tax collection, the system during the time of this study is a multi-tiered system (Tan and Dorotheo, 2018).

In contrast to Indonesia, Thailand is able to successfully reduce cigarette consumption or the prevalence of cigarettes through tax and/or excise. Thailand and Indonesia are comparable in terms of both are middle-income country with large tobacco commodity in ASEAN (see Figure 1). Furthermore, currently Thailand is ranked first as the ASEAN member country with the highest tax burden (70%), followed by Singapore (67.5%) and Indonesia (62.71%) according to Southeast Asia Tobacco Control Alliance (2019).
Thailand has adopted numerous policy interventions to control tobacco consumption in the last two decades, resulting in a gradual yet significant decline in smoking prevalence. During 1991 and 2012, tobacco excise tax rate in Thailand has been increased from 55% to 87% of factory price, resulting in a fourfold increase in the revenues from THB 15.89 billion (USD 530 million) to THB 59.91 billion (USD 1,997 million) as well as the decline in smoking prevalence from 32% to 21.4%. In early 2016, the tax rate is further increased to 90% to further reduce the number of smokers and increase annual tax revenue by approximately THB 15 billion. In September 2017, Thailand implemented a new tax structure and rate on tobacco to further decrease tobacco consumption (The Southeast Asia Tobacco Control Alliance, 2018).

In general, Thailand has an identical structure of state levies on the consumption of tobacco products to Indonesia, namely at the central and local levels. Excise is the main instrument of tobacco control in both countries, whose main objective is to reduce tobacco consumption and increase state revenue (The Southeast Asia Tobacco Control Alliance, 2018). Similar to Indonesia, the government of Thailand collects VAT and local taxes, as well as other levies in addition to levies on tobacco consumption, including taxes on health and public service broadcasts. The tax on health is used by the government as a special fund managed by ThaiHealth, the Thai Health Promotion Foundation, to control the negative externalities caused by tobacco products, particularly cigarettes.

Despite having similar structure of levies, the upward trend of revenue, and excise tax rates, the impact of state levies on tobacco in Indonesia and Thailand is different. While Indonesia has been considered unsuccessful in reducing smoking prevalence rate (see Figure 3), Thailand has been known to produce success stories (see Figure 4). This study aims to analyze the structure of state levies on tobacco consumption in Indonesia and Thailand, as well as to analyze the alternative state levies on tobacco consumption in Indonesia based on lessons learned from Thailand. The comparison of state levies on tobacco in Indonesia and Thailand is different. Similar to Indonesia, the government of Thailand collects VAT and local taxes, as well as other levies in addition to levies on tobacco consumption, including taxes on health and public service broadcasts. The tax on health is used by the government as a special fund managed by ThaiHealth, the Thai Health Promotion Foundation, to control the negative externalities caused by tobacco products, particularly cigarettes.

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In this section, the discussion begins with general differences of state levies on tobacco between the two countries, followed by an elaborated discussion on the structure of levies for each country. This study argues that alternative policies can be proposed to Indonesia based on lessons learned from policies in Thailand.

The comparison of state levies on tobacco in Indonesia and Thailand shows a minor difference. Both countries collect excise tax as the main instrument of tobacco control and also collect other levies (such as local taxes) on tobacco. The purpose of this comparison is to understand the tax and/ or tax policy interventions on tobacco control.

**RESULT AND DISCUSSION**

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**RESEARCH METHOD**

This study applies a qualitative approach to gain a comprehensive understanding and interpretation of a social phenomenon (Creswell, 2014). Qualitative methods offer a comprehensive understanding and interpretation of a social phenomenon (Creswell, 2014). Qualitative methods offer an effective way of comparing the structure of state levies on tobacco in Indonesia and Thailand as well as of proposing an alternative policy to reduce tobacco consumption in Indonesia according to lessons-learned from Thailand. The discussion in this study is limited to the structure of state levies on tobacco in Indonesia and Thailand in terms of revenue, namely levies at the central level (e.g. excise tax, VAT) and local level (e.g. cigarette tax). This study also only juxtaposes the structure of state levies in the two countries without measuring the effectiveness of these policies on tobacco control.

Data for Thailand were collected using study literature, whilst that of Indonesia was done through a field study. Semi-structured interviews were conducted in Indonesia with a representative from several institutions, namely the Directorate General of Taxation of the Ministry of Finance, the Directorate General of Customs and Excise of the Ministry of Finance, the Directorate General of Fiscal Balance of the Ministry of Finance, Fiscal Policy Office of the Ministry of Finance, the Ministry of Health, Indonesia Association of White Cigarette Manufacturers (Gaprindo), and experts in the field of taxation and public health in Indonesia. The data on state levies in Thailand were obtained through desk-research by comparing state levies between Indonesia and Thailand. Further data collection is required for future studies to explore the state levies in Thailand by conducting observational studies in Thailand. In particular, it is impossible to acquire the opinions of the Indonesia’s tobacco industry due to limited access and their unwillingness to be interviewed. However, the lack of confirmation from the industry side is overcome with in-depth interviews with the association (Gaprindo) to represent the arguments of the industry.

**Table 1. The Comparison of the State Levies on Tobacco in Indonesia and Thailand**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Excise Duties on Tobacco (Spice Rate)</th>
<th>Central Excise Tax Rate</th>
<th>Other Levies</th>
<th>Excise Tax Base</th>
<th>The Price of Production (THB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>70%</td>
<td>20% of SP (specific excise duty)</td>
<td>7%</td>
<td>Local excise tax, 5% of excise tax</td>
<td>The price of production</td>
</tr>
<tr>
<td>Indonesia</td>
<td>57%</td>
<td>20% of SP (specific excise duty)</td>
<td>0.3%</td>
<td>Local excise tax, 10% of excise tax</td>
<td>The price of production</td>
</tr>
</tbody>
</table>

Note: SP is the suggested retail price. This rate will be applied from 15 August 2017 to 30 September 2019. **This rate will be applied from 20 October 2020 onwards.**

Source: The Ministry of Finance of Indonesia; Southeast Asia Tobacco Control Alliance, 2019; the data reprocessed by the author, 2018
or excise tax policy that could serve as an alternative for Indonesia. The comparison is carried out by comparing the structure of state levies on tobacco consumption in Indonesia and Thailand, as shown in Table 1.

Based on Table 1, Thailand has a higher tax burden for tobacco products compared to Indonesia. The government of Thailand imposes a tax burden of 70% of the Retail Price. This indicates that the government of Thailand has followed the instructions of WHO in specifying the minimum rate, namely 70% of the retail price. The Government of Indonesia, on the other hand, also imposes a tax burden but with a maximum rate of 57% as per Law Nr. 39 of 2007 on Excise Tax. The rate is determined with regard to health, revenue, and labor issues. Nevertheless, the negative externalities are far from being controlled by it. In terms of number, variety and structure, the state levies on tobacco in Thailand shows excess than that in Indonesia. Not only local taxes whose collection is managed by the Provincial Administration Organization of Thailand and VAT, but also other levies such as elderly tax and sports tax. On the contrary, the structure on state levies on tobacco in Indonesia only consists of excise tax, VAT, and cigarette tax (local tax). Each levy has its own role in reducing tobacco consumption and increasing state revenues. The following subsection explains each of the state levy implemented in each country.

The Structure of State Levies on Tobacco in Indonesia.

Excise Tax on Tobacco.

In the context of controlling tobacco consumption, the policy instrument used by Indonesia is excise tax. Excise tax has four mutually exclusive characteristics of goods subject to excise as per Law Nr. 39 of 2007. The characteristics are: (a) the consumption needs to be controlled; (b) the circulation needs to be supervised; (c) its utilize may have a negative impact on the community or the environment; or (d) its utilize requires the imposition of state levies for justice and balance (Purwito, 2010). The government establishes tobacco excise tax policy to affect the price of cigarettes circulation within the community in the Regulation of the Minister of Finance Nr. 146/PMK.010/2017 on Tobacco Excise Tax Rate, first amended by the Regulation of the Minister of Finance Nr. 156/PMK.010/2018 and later amended by the Regulation of the Minister of Finance Nr. 152/PMK.010/2019 stipulates the following: first, the determined excise tax rates must not be lower than the applicable excise tax rates; and second, the Retail Selling Price (RSP) must not be lower than the applicable limit of RSP per cigarette or gram. In contrast to PMK Nr. 146/PMK.010/2017, there is no explicit statement from the government regarding this matter where the regulation only regulates RSP to be at least similar to the applicable RSP in the previous year.

The rate policy for tobacco excise tax has already exceeded the established formula, that is above the inflation rate, and economic growth. It also reflects certain values in order to reduce the affordability and consumption of tobacco products. However, the current tobacco excise tax policy is considered inappropriate to fulfill the function of regulatory, in the context of controlling tobacco consumption in Indonesia since the rate policy on tobacco excise tax in Indonesia cannot raise the price of cigarettes significantly. Table 2 illustrates the data of the increase in excise tax rates, RSP limit, and tax burden on tobacco in 2014-2018.

Table 2. Taxation Policy on Tobacco in 2015-2019

<table>
<thead>
<tr>
<th>Taxation on Tobacco</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018 and 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Increase in Excise Tax Rates for Tobacco</td>
<td>11.7%</td>
<td>14.2%</td>
<td>10.5%</td>
<td>10.04%</td>
</tr>
<tr>
<td>Cigarette Tax (10% of Excise Tax)</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>VAT on TP</td>
<td>8.4%</td>
<td>8.7%</td>
<td>9.1%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Limit of RSP (IDR/cigarette)</td>
<td>820</td>
<td>935</td>
<td>1,027</td>
<td>1,054</td>
</tr>
<tr>
<td>The Increase in Limit of RSP (%)</td>
<td>14.3%</td>
<td>14.1%</td>
<td>12.26%</td>
<td>10.49%</td>
</tr>
<tr>
<td>Average Excise Tax Rates</td>
<td>355</td>
<td>405</td>
<td>440</td>
<td>468</td>
</tr>
<tr>
<td>Average Excise Burden</td>
<td>43.3%</td>
<td>43.3%</td>
<td>45.6%</td>
<td>44.7%</td>
</tr>
<tr>
<td>Average Tax Burdens (Excise Tax, Cigarette Tax, VAT)</td>
<td>56.0%</td>
<td>56.3%</td>
<td>57.5%</td>
<td>58.3%</td>
</tr>
</tbody>
</table>

Source: Center for State Revenue Policy of Fiscal Policy Agency, 2019; reprocessed by author, 2019

Table 2 shows that the excise tax rates for tobacco in Indonesia do not significantly increase in 2015-2019, merely ranging between 10-14%. Despite the implementation of a specific rate system, there are still layers or tiers based on retail prices. In this case, the government has regulated the gradual simplification of excise tiers until 2021 as per the Regulation of the Minister of Finance Nr. 146/PMK.010/2017, which entails 10 tiers in 2018, 8 tiers in 2019, 6 tiers in 2020, and 5 tiers in 2021. Unfortunately, the multiple tiers of retail prices will complicate the excise
tax administration. The structure of excise tax on tobacco is differentiated by type, level of production, and price level has become too complex and extensive. This excise tax system implicates the expansion of range of retail prices at the consumer level and the increase in the circulation of illegal cigarettes in the community (Interview with Abdillah Ahsan, Tobacco Tax Expert, May 11, 2018). It resulted in an affordable retail price of cigarettes on the market and low decline of smoking prevalence in Indonesia (see Figure 3 in introduction section).

Figure 3 shows that smoking prevalence rate in Indonesia tends to be stagnant in 31-36% during 2001-2013. In fact, this figure has tended to rise over the past 10 years, despite the increase in the excise tax. On the other hand, the revenue obtained from excise tax increases every year, as previously described in the introduction. Thus, the government aims to adjust the policy on tobacco excise tax rate, one of the instruments to control tobacco consumption, by significantly increase the excise tax and RSP limit by 21.5% and 35%, respectively, in 2020. This policy is positively accepted and expected to provide better results in reducing the increasing smoking prevalence in Indonesia. It should be taken into consideration if the government aims to control high consumption of cigarettes in order that the implementation of the law can achieve its goals and objectives. Supposedly, a high excise tax rate policy can affect the price of cigarettes to be unaffordable in the community.

**VAT on Tobacco.**

In addition to excise tax, the Government of Indonesia stipulates VAT policy on tobacco to affect the price of cigarettes in the community. VAT policy is an additional levy on the delivery of goods and focused on increasing state revenue in terms of budgetary function (Interview with the Directorate of General Tax of the Ministry of Finance, May 4, 2018; Interview with Abdillah Ahsan, Tobacco Tax Expert, May 11, 2018). It can be argued that the purpose of VAT policy on tobacco is not to control tobacco consumption from theoretical perspective, considering its characteristic as a consumption tax (Murwendah and Malau, 2018). Unlike the excise tax, VAT is levied on the consumption of all goods and services, regardless of their externalities. VAT on tobacco products is used as an additional levy to increase state revenues since VAT is imposed on added value on consumption in each chain of distribution. It is not imposed for the purpose of reducing the negative externalities of smoking since it is impartial to both parties (consumer and seller).

VAT policy on tobacco currently applies an effective rate. Based on the Regulation of the Minister of Finance Nr. 174/PMK.03/2015, the effective rate is the rate applied to calculate and collect the VAT levied on tobacco. The effective rate policy of VAT on Tobacco Products also increases, although it is not periodically as excise tax rate. In early 2017 and in 2018, the effective rate of VAT for tobacco is 8.9% and 9.1%, respectively.

VAT on tobacco is levied on the end of the distribution chain, namely at the manufacturer level. It raises the question about the rationale for different treatment on cigarettes. One of the arguments for this is the long distribution chain for tobacco products, starting from manufacturers, distributors, agents, retailers, to end consumers (Interview with Gaprindo, April 24, 2018). In practice, not all parties involved are Taxable Entrepreneurs. Furthermore, this different treatment facilitates and supports efficient VAT collection (Interview with Fiscal Policy Agency of the Ministry of Finance, 23 May 2018). Therefore, VAT is levied only at the manufacturer level. The imposition of VAT on tobacco products applies single stage levy. According to Rosdiana and Irianto (2012, 218), on a single stage levy, taxes are imposed by producers on the production line, that is on the last product or on all sales of goods made in the factory. It is different from the characteristics of VAT applying multi-stage levy. It means that VAT is imposed on every production and distribution chain of Taxable Goods or Taxable Services. Nevertheless, observed from its legal character, VAT should ideally be levied on consumption of general goods in each chain of production (multi-stage levy). Thus, the tax collection mechanism does not meet the characteristics of VAT.

**Cigarette Tax on Tobacco.**

Based on the Law Nr. 28 of 2009, the Government of Indonesia stipulates one additional levy to be a Local Revenue, namely cigarette tax. In addition to being additional revenue for the region, cigarette tax also serves as a form of control over cigarette consumption. The rate determined for cigarette tax is 10% from excise tax levy, which is considered insignificant for the purpose. This is due to the relatively inexpensive price of cigarettes in Indonesia. However, assuming that the government stipulates the higher base price for cigarette sales and even unaffordable, the 10% rate can be relevant (Interview with Inayati, Local Tax Expert, May 22, 2018). On the other hand, the government considers that the imposed cigarette tax rates are appropriate, considering that there are other levies on cigarette consumption. In addition to the health issues and regulatory functions of the cigarette tax, the government also needs to pay attention to the aspects of revenue and labor (Interview with the Directorate General of Fiscal Balance of the Ministry of Finance, May 4, 2018).

The mechanism of cigarette tax collection is slightly different from other local taxes. The collection of cigarette tax is carried out by the central government, and then to be channeled back to the regions. The system is referred to piggyback tax. Piggyback tax is a taxation approach in which local governments "ride" or add taxes on taxes imposed by the central government (Martinez-Vazquez et al., 2006). The tax base of cigarette tax is excise tax, where excise tax is the central tax and cigarette tax is a local tax. Even though cigarette tax is levied by the central government, cigarette tax is a local tax managed by the province. By implementing such system, the administration of both tax authorities shall be easier. The system of piggyback tax will be more efficiently applied since it can reduce collection cost. Local governments do not need to issue collection fees in tax collection. Compared to the usual collection system carried out by each region, this collection system is considered more efficient and effective (Interview with Inayati, Local Tax Expert, 2018; Interview with the Directorate General of Fiscal Balance of the Ministry of Finance, May 4, 2018).

With the existence of piggyback tax system, the mechanism of cigarette tax collection is slightly different from other local taxes. Referring to Law Nr. 28 of 2009 on Local Taxes and Charges, Article 27 states the provisions on the procedure for collecting and depositing Cigarette
Tax regulated in the Regulation of the Minister of Finance, namely the Regulation of the Minister of Finance Nr. 115/PMK.07/2013. The regulation has been amended to the Regulation of the Minister of Finance Nr. 11/PMK.07/2017 on the Third Amendment to PMK Nr. 115/PMK.07/2013 on the Procedures for Collecting and Depositing Cigarette Tax. Cigarette tax is an excise tax in Thailand, applies the concept of earmarking tax in terms of allocating funds for health. Based on the Law Nr. 28 of 2009 and the Regulation of the Minister of Finance Nr. 11/PMK.07/2017, the allocation (earmark) is determined at least 50% of the revenue from cigarette tax. The allocation is intended to fund various public health facilities, infrastructure as well as law enforcement. The government stipulates this policy as balancing measure between cigarette consumption and public health. Moreover, based on the Regulation of the Minister of Health Nr. 53 of 2017 on Technical Guidelines on the Use of Cigarette Tax for Funding Public Health Services, cigarette tax is also allocated to the national health insurance programs, approximately 75% of the allocation of health services in accordance with the applicable legislation. The contribution of Cigarette Tax is determined at 75% of 50% or equal to 37.5% of the realization of revenue obtained from the Cigarette Tax of each province/district/city.

The Structure of State Levies on Tobacco in Thailand.

The policy structure of state levies on tobacco consumption in Thailand has several variations, including excise tax, VAT, other levies such as local tax, tax for health, and tax for public broadcasting services.

Excise Tax on Tobacco.

In general, tobacco excise tax in Thailand applies compound system, in which tobacco products are subjected to two types of excise tax, namely specific and ad valorem rate (Southeast Asia Tobacco Control Alliance, 2019). The rate depends on their capabilities to generate greater tax burden on tobacco products and provide greater acceptance. In order to control tobacco consumption, the rate system applied in tobacco excise tax is ad valorem rate. Periodically, the government of Thailand has raised the excise tax rate significantly, from 55% to 90% of the factory price (Southeast Asia Tobacco Control Alliance, 2019). For instance, in 2016, the prevailing ad valorem rate was 87%. At the same year, there was an increase in ad valorem rates to 90%. The change is to prevent the effect of a decline in trade in diverting consumption to low-priced tobacco products. With this tobacco excise tax policy, production costs will increase, pushing the retail price up and eventually reducing consumption.

The significant increase in cigarette price through excise tax instrument in Thailand is considered highly effective to prevent the emergence of beginner smokers. It is related to the fact that a significant increase in tobacco excise tax rate in Thailand also makes the retail price of cigarettes increasingly unaffordable for beginner smokers. For the prevalent consumers, they indirectly contribute in increasing state revenues through persistent consumption. The funds then re-utilized for the welfare of the community through health insurance. Figure 4 (see introduction section) shows a decline in the rate of prevalence of smoking in Thailand due to the increase in tobacco excise tax rate. The lesson learned from this is that in order to reduce the prevalence of smoking, it is necessary to increase the rate significantly to meet the function of regulatory.

Figure 4 shows that the prevalence of smoking in Thailand decreases significantly for both gender from 32% in 1991 to 19.1% in 2017. The decrease is directly linked to the excise tax policy and other levies affecting the selling price of cigarettes in the community. It is evident in Figure 5, where the trend of revenue obtained from excise tax in Thailand shows a significant increase since 2010. It is also followed by a consistent increase in Excise tax rates since 1991. From the budgetary function, tobacco excise tax has become a large source of state revenue for Thailand. On the other hand, the regulatory function of the tobacco excise tax is considered successful, proven by the decrease in smoking prevalence.

Figure 5. The Comparison of the Upward Trend of Excise Tax Rates and Revenue of Tobacco Excise Tax in Thailand in 1991 - 2017

Source: The Tobacco Control Atlas: ASEAN Region, Fourth Edition, 2018

VAT on Tobacco.

Thailand also applies VAT as an additional levy on tobacco consumption. The VAT rate on tobacco in Thailand is slightly lower than Indonesia, namely at 7%, with the tax base is the maximum retail price determined by the Ministry of Finance. The maximum retail price is calculated by considering the costs and profits as well as all types of taxes, namely, import tariff (in the case of imported tobacco), excise tax, local tax, tax for health, and tax for public broadcasting service, excluding VAT. Thus, VAT of 7% is imposed on cigarette price includes all related costs. Such rate structure does not have a significant impact on the retail price of goods, including cigarettes (Sarnthisart, 2011). Thus, in accordance with the function, the VAT policy on tobacco products inclines towards the function of budgetary, namely adding the state revenue.

VAT on tobacco products in Thailand is levied on every stage of the product sales starting from the manufacturers or importers to the end consumers. It indicates that the imposition of VAT on tobacco in Thailand is in accordance with the multi-stage levy characteristics of VAT. By using a multi-stage levy system in practice, there is a uniformity of levies between cigarette industry and other industries. As in Indonesia, the VAT policy on tobacco basically has never been used as an instrument in tobacco control (Murwendah & Malau, 2018). However, from the budget side, the revenue
from tobacco products become a reliable income for state.

**Local Tax on Tobacco.**

Another tax instrument used as an additional state levy to control tobacco consumption is the local tax. Local tax is a specific tax on cigarette for retail sales. The tax rate levied is included in specific rate. The rate policy for local tax is implemented differently in all provinces, with a maximum rate of THB 0.05 per stick, namely THB 1 per pack/20 sticks in 2004. However, the majority of Provincial Administrative Organization (PAO) has increased the applied rate to THB 0.093 per stick, or THB 1.86 per pack/20 sticks (Santisart, 2011). The local tax collection is carried out by the PAO to support the financial needs of the region and it is not tied to health activities related to cigarette consumption.

**Tax for Health.**

The implementation of earmarking tax policy in Thailand arises from the existence of an additional levy on the basis of the imposition of excise tax, called Tax for Health. The earmarking concept in this levy is applied as a form of allocation of a portion of revenue from tobacco excise tax for health purposes. It is used to decrease the negative externalities of health generated by tobacco consumption. In the case of a health program, including tobacco control and/or health promotion, the government of Thailand issues the Law on Health Promotion in 2001, leading to the establishment of the ThaiHealth Promotion Foundation. This institution is an autonomous body of Thailand assigned to manage funds from the revenue from tobacco excise. ThaiHealth receives an additional levy of 2% of the total revenue from tobacco excise, also called Tax for Health since 7 November 2001 (Santisart, 2011). ThaiHealth can use this fund to raise public awareness of the risks of excessive tobacco consumption as well as organize tobacco control programs and promote good public health in accordance with national health policies.

**Tax for Public Broadcasting Service (TV Tax) and Other Levies.**

Since 15 January 2008, Thailand imposes an additional levy on tobacco consumption in the form of a tax for public broadcasting service. This levy is a form of implementation of earmarking tax policy with the rate is specified at 1.5% of tobacco excise (Santisart, 2011). It shows that the Government of Thailand also applies tax instruments for cigarette promotion media. Contextually, it can be said that the policy of state levies on tobacco consumption in Thailand is more comprehensive. The tax policy on tobacco consumption as well as organize tobacco control programs and promote good public health in accordance with national health policies.

### Table 1. The Calculation of State Levies on Cigarettes in Thailand

<table>
<thead>
<tr>
<th>No.</th>
<th>Types of Levies</th>
<th>Calculation (THB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Excise Tax</td>
<td>10.59 x THB 4,500</td>
</tr>
<tr>
<td>2</td>
<td>VAT</td>
<td>91% x THB 4,500</td>
</tr>
<tr>
<td>3</td>
<td>Local Tax</td>
<td>1.86 x THB 20</td>
</tr>
<tr>
<td>4</td>
<td>Sports Tax</td>
<td>1.86 x THB 20</td>
</tr>
<tr>
<td>5</td>
<td>Elderly Tax</td>
<td>1.86 x THB 20</td>
</tr>
<tr>
<td>6</td>
<td>Health Tax</td>
<td>1.86 x THB 20</td>
</tr>
<tr>
<td>7</td>
<td>Tax on Adolescent (15% of excise tax)</td>
<td>THB 1,400</td>
</tr>
<tr>
<td>8</td>
<td>Tax on Adult (10% of excise tax)</td>
<td>THB 1,400</td>
</tr>
<tr>
<td>9</td>
<td>Total (1-8)</td>
<td>THB 6,000</td>
</tr>
<tr>
<td>10</td>
<td>VAT</td>
<td>THB 4,500</td>
</tr>
<tr>
<td>11</td>
<td>Total (1-10)</td>
<td>THB 10,000</td>
</tr>
</tbody>
</table>

The table above shows the calculation of state levies on cigarettes in Thailand. The total price of cigarette is calculated as follows: Retail Selling Price = THB 10.59 x 4,500 + 91% x 4,500 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 4,500 = THB 6,000. Thus, the total price of cigarette is THB 10,000.

### Table 2. The Calculation of State Levies on Cigarettes in Indonesia

<table>
<thead>
<tr>
<th>No.</th>
<th>Types of Levies</th>
<th>Calculation (IDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Excise Tax</td>
<td>1,161 x 10,000</td>
</tr>
<tr>
<td>2</td>
<td>VAT</td>
<td>91% x 10,000</td>
</tr>
<tr>
<td>3</td>
<td>Local Tax</td>
<td>1.86 x 20</td>
</tr>
<tr>
<td>4</td>
<td>Sports Tax</td>
<td>1.86 x 20</td>
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</tr>
<tr>
<td>8</td>
<td>Tax on Adult (10% of excise tax)</td>
<td>IDR 1,500</td>
</tr>
<tr>
<td>9</td>
<td>Total (1-8)</td>
<td>IDR 11,671</td>
</tr>
<tr>
<td>10</td>
<td>VAT</td>
<td>IDR 2,214</td>
</tr>
<tr>
<td>11</td>
<td>Total (1-10)</td>
<td>IDR 13,885</td>
</tr>
</tbody>
</table>

The table above shows the calculation of state levies on cigarettes in Indonesia. The total price of cigarette is calculated as follows: Retail Selling Price = 1,161 x 10,000 + 91% x 10,000 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1.86 x 20 + 1,500 = IDR 11,671. Thus, the total price of cigarette is IDR 13,885.
Based on the comparison of the state levies on tobacco in Indonesia and Thailand, there are several alternative policies that can be adopted by Indonesia in reducing tobacco consumption are, among others:

1. Tax Burden on Cigarette Selling Price

In this context, the Government of Indonesia can maximize higher tax burden on tobacco products. Similar to Thailand, the Government of Indonesia should comply to WHO and raise the maximum rate for tax burden at 70%. Following the supply and demand law, the high price of cigarettes will reduce the consumption since less people would be willing or can afford to spend the money on the difference in price.

2. VAT

In the context of VAT policy on tobacco, Indonesia should apply the multi-stage levy system as one of the alternative policies in VAT on tobacco. Multi-stage levy system presents a more uniform and fair VAT. In addition, the Tax Authority in of Indonesia will be able to monitor taxpayers’ compliance in accordance with their business performance. However, the transition to this collection system should be supported by the readiness of the Directorate General of Taxation of Indonesia as well as the businesses involved in tobacco industry.

3. Excise Tax

Indonesia adheres to a specific rate system, while Thailand to compound rate system, using the ad valorem rate to increase rate for tobacco excise. The more important fact to note is the policy on raising the tobacco excise tax rate on a regular and significant basis. The significant increase of tobacco excise tax rate is proven to fulfill the function of regulatory and budgetary of tobacco excise tax policy. From the regulatory perspective, the increase in tobacco excise tax is considered capable of controlling cigarette consumption or the negative externality caused by cigarette consumption. From the budgetary perspective, the revenue from tobacco excise is significant to increase state revenue.

4. Tax for Health

With regard to tax policy for health, Indonesia should adopt this policy by establishing an independent institution responsible for managing funds for health. With the establishment of a specific-purpose institution, the function of control or supervision of the allotted funds for health can be maintained.

5. Tax for Public Broadcasting Services and Other Levies

The Government of Indonesia also needs to consider the tax policy for public broadcasting services as an alternative. Due to the massive media and publications in Indonesia, this policy can fulfill the regulatory function of the tax. In this context, this policy can lead to more comprehensive the state levy policy on tobacco in Indonesia. Therefore, the government can impose additional levies on cigarette promotion by media, in addition to less successful regulations on advertising restrictions implemented at the moment. The Government of Indonesia also can consider imposing more state levies on tobacco, creating a more accountable earmarking tax.

CONCLUSION

The comparison of the structure of state levies on tobacco in Indonesia and Thailand shows several differences. The state levies on tobacco in Indonesia consists of excise, VAT, and cigarette tax, while the state levies on tobacco consumption in Thailand is more varied, consisting of excise, VAT, local tax, tax for health, tax for public broadcasting service, sport tax, interior tax, and elderly tax. With such levies, Indonesia has not been able to significantly reduce the prevalence of smoking in Indonesia, notwithstanding the annual increase of the state revenue from these levies. Unlike Indonesia, the state levies on tobacco in Thailand is considered to be able to deter the prevalence of smoking in Thailand, although not accompanied by the increase of state revenue annually.

In this regard, the Government of Indonesia should consider to raise the maximum rate for tax burden to 70% to affect the affordability of cigarette price in the community. In the context of state levies, the Government of Indonesia can apply a multistage levy system in the collection of VAT on tobacco in particular and to raise tobacco excise tax rate on a periodic and significant basis.

In addition, Indonesia can establish an independent institution responsible for managing funds for health and tobacco control. Thus, the allocation of health funds will be more controlled, particularly in regard to tax policies with the characteristics of earmarking tax. Clear and layered function of control between the central and local governments is expected to be able to supervise the implementation of the earmarking tax policy in order not to be proceed superficially. Further study is necessary to analyze the issue of spending or allocation in terms of state levies on tobacco in both countries. It is necessary to explore the revenue obtained from levies on tobacco, particularly in relation to governance, accountability, and the feasibility of the concept of earmarking tax as a solution to control the spending.

ACKNOWLEDGMENT

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