Viet Nam’s Environmental Protection Tax Law

Key points

• Viet Nam is introducing a tax reform to green its taxation practices towards achieving a more sustainable and greener path of development.

• Introduction of the Law was based on a careful preparation including preliminary impact analysis and technical support of international organizations. For effective reform, careful designing on the taxation and revenue recycling structure is important.

There was a problem…

With rapid economic growth raising energy and resource consumption, the Vietnamese Government recognized its development path could not cope in the long term without changes to its trajectory.

What was done?

The Government included a greater emphasis on environmental conditions into its growth plan in the past decade. This involved establishing legal institutions and a policy framework for more sustainable growth and development: the Ministry of Natural Resources and Environment was created and a fiscal decision was embraced to allocate 1 per cent of the state budget for environmental protection expenditure.

In November 2010, the National Assembly of Viet Nam passed the Environmental Protection Tax Law (with 98.7 per cent of the votes), which entered into force on 1 January 2012. For drafting the law, the Ministry of Finance consulted the German GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH) for technical advice. The new law taxes a range of environmentally harmful activities and substances. The Environment Protection Tax is an indirect tax that applied to the production and importation of certain goods, including petroleum products, and calculated as an absolute amount on the quantity of the goods.

Energy is largely targeted in the form of different types of fuels, with coal and refined fuels accounting for 99.5 per cent of the taxes. The taxable objects include refined fuels, such as gasoline, diesel, mazut, paraffin and kerosene, coal, hydrochlorofluorocarbon (HCFC) substances, plastic bags and a subset of harmful chemical substances used in agriculture and forestry. New revenues generated by the taxes are to be recycled through environmental programmes, although the details on how this will be done have not yet been specified.

Expected results

Two economic modelling exercises have been completed to assess the outcomes of the new law. A computable general equilibrium model by Willenbockel of the Institute of Development Studies (2010) projects that CO2 emissions will drop by 2.3–7.5 per cent, depending on the tax rate. He also projects that the impact of a low level tax will result in welfare loss that is equivalent to a 0.66 per cent loss of household income for consumption of private goods. The impact analysis on the welfare of the households (defined as consumption of private goods) indicates that the law is not strictly income regressive. These findings need to be considered with caution because the model does not take into account welfare gains resulting from the Government’s revenue recycling policies and actions and their increased beneficial environmental impacts.

Another economic general equilibrium modelling exercise by Coxhead and Chan (2011) projects that GDP
Another economic general equilibrium modelling exercise by Coxhead and Chan (2011) projects that GDP growth will be reduced by 0.34 per cent and the consumer price index will increase by 0.44 per cent, benefiting the poor in some cases. The study notes that these findings, however, will not lead to a conclusion that the law is going to be a threat to the economic development of Viet Nam because the modelling neither includes the value of environmental benefits and potential social benefits of the revenue recycling nor considers the competitiveness impacts.

Lessons learned

These studies, though limited, show that the design of an environmental tax reform and how the revenue is recycled is crucial to the success of such reform in Viet Nam. To maximize the economic and environmental benefits, it is recommended to set up a clear and stable mid-term to long-term roadmap with a gradual tax increase scheme, that is announced well in advance and that indexes tax rates to inflation and recycles revenue through investments in energy efficiency and renewable sources,

As well, the relationship between the new environmental law and existing laws should be clearly defined to avoid overlapping; the roles of the relevant environmental agencies need to be clarified.¹

Further reading

*Environmental Fiscal Reform in Vietnam: Briefing Note* (Berlin, German Agency for International Cooperation (GTZ), 2010).


“The Vietnam on its way to support climate change resilience via environmental tax strategies”, by Kai Schlegelmilch, PowerPoint presentation at the Global Conference on Environmental Taxation, Bangkok, 3-5 November 2010.