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CARBON TAX – LESSONS FROM SINGAPORE AND RECOMMENDATIONS FOR VIETNAM

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The green economy – the process of "greening" the economy has become a common goal for many countries worldwide. In terms of international cooperation, Vietnam has signed many memoranda of understanding with other countries to promote the development of a green economy both domestically and globally. Notably, in February 2023, Vietnam and Singapore established a Digital Economy – Green Economy Partnership, marking an important step in bilateral cooperation. Singapore is a country that always prioritizes green economic development policies, and it is also the first country in Southeast Asia to implement a carbon tax to further accelerate the realization of the net-zero target by 2050. Therefore, learning from Singapore's implementation of carbon tax regulations is a necessary requirement, helping Vietnam "leapfrog" in international integration and developing a green economy.

Legal Framework of "Carbon Tax" of Singapore

The Singapore government first introduced the Green Plan in 1992, followed by the Singapore Green Plan in 2012. Since January 2019, the Carbon Pricing Act has officially come into effect in Singapore, and carbon tax regulations have been implemented in this country. This type of tax is designed to encourage companies across all sectors to reduce their emissions, facilitating Singapore's transition to a low-carbon economy. The revenue from the tax is reinvested by the Singapore government to fund emission reduction measures. The entities impacted by the carbon tax are:

(1) Large facilities generating more than 25,000 tons of direct emissions per year are subject to the carbon tax program. These typically include oil refineries and power plants;

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(2) Final energy consumers – while consumers, in general, are not large-scale emitters, those purchasing electricity or energy through the grid (even if they do not activate the 25,000-ton threshold) will also be affected.

The taxable amount is determined through the following formula:

Tax Amount = CO2 Amount (in total GHG emissions) x Carbon Tax Rate

Regarding the carbon tax rate, since this is a new type of tax in Singapore's tax system, to help citizens adapt, the carbon tax rate will be increased according to a reasonable schedule. Specifically, under Part 1 Schedule 3 of the Carbon Pricing Act, the carbon tax rate is $5/t CO2e. However, as of 2024, this rate will increase to $25. The scheduled rate for 2026 will be $45, and by 2030 it will range from $50 to $80.

Recommendations for Vietnam

In Vietnam, the term "carbon tax" is still relatively new, and there are currently no specific legal provisions for it. Existing tax regulations that support the development of a green economy are only reflected through taxes such as the Environmental Protection Tax, Natural Resources Tax, Excise Tax, and Corporate Income Tax. However, no tax in Vietnam currently targets Greenhouse Gas (GHG) emissions. Therefore, establishing a carbon tax model is an urgent requirement in the current context.

According to researchers, if Vietnam were to implement a carbon tax, it could choose one of the following models:

<u>**Option 1**</u>: Integrate the carbon tax into the Environmental Protection Tax

Vietnam has an advantage over Singapore in having already established an environmental tax (The Environmental Protection Tax). This tax currently applies to products and goods that harm the environment when used, including but not limited to gasoline, oil, lubricants, coal, hydro-chloro-fluorocarbons (HCFCs), plastic bags, herbicides, insecticides, preservatives for forestry, and disinfectants. This tax is an indirect tax that implements the “polluter pays” principle, with the tax amount included in the price of taxable goods. The Environmental Protection Tax is similar to a carbon tax as both aim to reduce greenhouse gas emissions. However, the current absolute tax rate does not adequately reflect the carbon price, so its impact on reducing emissions remains limited.

The main limitation lies in accounting. Drawing from Singapore’s experience, the purpose of a carbon tax is to generate a stable revenue stream alongside the state budget to support green economic development. Therefore, a clear mechanism is required to optimize the use of funds when implementing a carbon tax.

Option 2: Separate carbon tax from the Environmental Protection Tax

Based on international experience, most countries have established a distinct carbon tax. However, in Vietnam’s context, there are limitations to a separate carbon tax, for example:

- A standalone carbon tax alongside the Environmental Protection Tax could create overlap, with the risk of double taxation on a single item, affecting taxpayers and potentially causing public opposition.

- The cost of establishing a legal framework for a new carbon tax would be high. First, in the legislative process, a new carbon tax would require a complex drafting and approval process, with significant resources for human and material needs. Second, operational costs would be substantial, including administrative expenses for lengthy approvals and technical costs for pre-assessment, as well as establishing a monitoring, reporting, and verification (MRV) system.

Considering these two options, integrating the carbon tax within the Environmental Protection Tax is more feasible and compatible with Vietnam's tax system. Therefore, the following are specific requirements for designing this integration:

- Taxpayer: The carbon tax targets fossil fuel consumption that emits greenhouse gases. Therefore, due to the difficulty of identifying end consumers, the tax should apply to entities directly importing or extracting fossil fuels.

- Tax rate: According to the Intergovernmental Panel on Climate Change (IPCC), a suitable carbon tax to keep temperature rise below 1.5°C by the end of the 21st century ranges from USD 40 to USD 80 per ton of CO2. Following Singapore's approach, Vietnam should introduce a gradually increasing tax rate, e.g. starting at USD 5 per ton of CO2 emission

- Use of tax revenue: International experience shows that carbon taxes are designed to support a green economy. Therefore, when implementing a carbon tax, national budget laws must include provisions to separate carbon tax revenue from other sources and specify that it should fund environmental protection activities.

Establishing a legal framework for a carbon tax has become an inevitable trend and requirement of our time. However, this does not mean we should rush its implementation, caution is needed in designing and applying this tax in Vietnam to balance the individual interests of taxpayers with the interests of the community.