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**Paper for the House Committee meeting
on 8 June 2001**

**Report of the Bills Committee on
Revenue Bill 2001 and Revenue (No. 2) Bill 2001**

Purpose

This paper reports on the deliberations of the Bills Committee on Revenue Bill 2001 and Revenue (No. 2) Bill 2001.

The Bills

2. The Revenue Bill 2001 and the Revenue (No. 2) Bill 2001 seek to amend certain ordinances to give effect to a number of revenue proposals in the 2001-2002 Budget. The Revenue Bill 2001 covers the proposed increase on tobacco duty, duty on alcoholic liquors and transport-related licence fees. The Revenue (No. 2) Bill 2001 covers the proposals relating to the maximum amount of self-education expenses deductible for calculation of salaries tax, the Air Passenger Departure Tax, and the maximum fees for the use of on-street parking spaces.

The Bills Committee

3. The House Committee agreed at its meeting on 27 April 2001 to form a Bills Committee to study the two Bills. Under the chairmanship of Hon Margaret NG, the Bills Committee held three meetings with the Administration and also met the representatives from five trade and business organisations concerned at one of the meetings. The membership list of the Bills Committee is in **Appendix I**.

Deliberations of the Bills Committee

4. The main deliberations of the Bills Committee are set out in the following paragraphs.

Revenue Bill 2001

5. Members note that for revenue protection reason, the proposed increases on tobacco duty, duty on alcoholic liquors and transport-related fees in Revenue Bill 2001 have come into effect from 2:30 pm on 7 March 2001 under the Public Revenue Protection (Revenue) Order 2001. The Order gives temporary legal effect to these proposals for a maximum period of four months. Owing to the confidentiality of the Budget, no prior formal consultation has been conducted by the Administration specifically in respect of the proposals.

Proposed increase from 30% to 40% the duty rate on liquors with an alcoholic content of 30% and below (except wine)

6. Since wine is excluded, beer is the major type of liquor affected by the increase. In its submission to the Bills Committee, the Hong Kong Beer Industry Coalition expresses strong opposition to the proposed duty increase for the following reasons -

- (a) Raising the duty as proposed will not generate the additional revenue the Government expects

The Coalition points out that as consumers are extremely price sensitive in the current economic environment, an increase in the retail price of beer will almost certainly lead to a further decline in overall consumption. Moreover, an increase in the retail price will encourage consumers to choose lower-priced beers, leading to a decrease in the dutiable value of beer purchased.

- (b) It would impose an unfair price burden on consumers

As beer constitutes 90% of all alcoholic beverages sold in Hong Kong, the proposed increase would have a much broader adverse impact on the general population than an increase in the duty rate on many other less widely consumed products.

- (c) It would harm the catering and entertainment industries

Revenue from sales of beer is particularly important to the catering industry, which buys 40% of all beer sold in Hong Kong. Under the current market situations, restaurants, bars and entertainment outlets are unlikely to pass on to consumers any price increase resulting from the duty increase. If the profit margins of these businesses are further eroded, the livelihood of all those who work in them will also be affected.

(d) It would result in a further consumption shift across the border

The proposed increase would further widen the price disparity between products in Hong Kong and Shenzhen, thereby making it more attractive for consumers to go across the border for shopping, dining and drinking. This would not only harm the beer industry in Hong Kong, but also the restaurant, bar and entertainment industries which are already coping with a downturn in their business.

Representatives of the catering, karaoke and bar industries have expressed similar concerns.

7. However, given the modest nature of the proposed increase, the Administration does not believe that it would cause any significant adverse impact on the consumption of beer. It was on this basis that the Administration estimated that the duty-paid quantity of beer in 2001-02 would be comparable to that in 2000-01, and hence estimated that the proposal would generate an increase of around \$90 million for the Government in 2001-02. The Administration has also pointed out that the duty-paid quantity of beer in April 2001 was 6.5% higher than in April 2000.

8. As the proposal will practically only increase the duty amount per can of beer within a range from six cents to 26 cents for the more popular brands of beer, the Administration does not believe that it will have any significant impact on the above industries. The Administration holds the view that whether, and if so, the extent to which the increase will be passed on to consumers through the wholesalers and retailers is entirely a commercial decision, having regard to the market response and other pertinent factors. It does not consider that the proposed small increase in duty amount will have any significant knock-on effect on the beer market, nor the effect of driving more people to go across the border for shopping and entertainment.

9. The Administration has also explained that it has not proposed a similar increase on strong liquor or wine because their duty rates are already at 100% and 60% respectively. Given the ex-factory price of such products is far higher than that for beer, the impact of such increase would be much more significant for such products. The risk of a switch to the consumption of cheaper products should be relatively higher, hence the risk of defeating the Administration's objective of increasing revenue.

Transport-related licence fees

10. In response to members' request, the Administration has informed the Bills Committee that based on the licensing statistics of 2000-01, about 236 050

driving licences, 340 000 private car licences and 28 000 motor cycle/motor tricycle licences are affected by the proposed 10% increase in licence fees. The details are in **Appendix II**.

11. In regard to driving licences, the Administration has pointed out that as the vast majority (93.4%) of the existing 1 539 000 full driving licences are 10-year licences issued since June 1997, they will only be affected when they are progressively due for renewal.

12. As regards the revenue gain arising from the proposed 10% increase in driving and vehicle licence fees, the Administration estimated that it will bring about an additional revenue of about \$160 million in 2001-02, while the full-year effect of this increase proposal is \$240 million.

Revenue (No. 2) Bill 2001

Air Passenger Departure Tax

13. The Administration proposes to increase the Air Passenger Departure Tax (APDT) from the existing \$50 to \$80 and widen the tax base to include helicopter passengers.

14. In its submission to the Bills Committee, Helicopters Hong Kong Limited objects to the proposal to levy the APDT on helicopter passengers. It points out that while the proposed \$30 increase represents only a small fraction of the overall cost of international travel for airline passengers, the impact on helicopter passengers will be much more significant. After deducting an existing passenger embarkation fee of \$18, there will be a net increase of \$62 in tax, representing 5% of their average fare, and potentially 10% of a planned discount fare. It also points out that whereas a tax applied uniformly on all international carriers does not penalise any single carrier, a 5% tax on helicopter travel will penalise the helicopter operator relative to its competitors in the price-sensitive Pearl River Delta, such as ferries and buses. As many alternative modes of transport are available, helicopter passengers are price-sensitive and value-conscious. For this reason, Helicopter Hong Kong Limited is very concerned that imposing the ADPT on helicopter passengers will stifle passenger growth.

15. The Administration has explained that the proposal to extend the ADPT to cover passengers departing Hong Kong at the Macau Ferry Terminal (MFT) Heliport is primarily aimed at broadening the tax base and raising revenue. Apart from increasing revenue, the proposal is made on equity ground. The Administration considers it fair and equitable to charge air passengers departing from the MFT Heliport, not only because these helicopter passengers are air passengers, but also because helicopter passengers departing from the Hong Kong International Airport (HKIA) are already required to pay the APDT under the existing Air Passenger Departure Tax Ordinance.

16. The Administration considers that those who choose to depart Hong Kong by helicopters at the MFT Heliport should have no difficulty in paying the APDT even if this would mean an increase in their ticket price. In this connection, the Administration has pointed out that the percentage share of the APDT of \$80 in average air ticket prices at the lower end of the market for short-haul flights should be broadly comparable to that in the average helicopter ticket price.

17. To mitigate the impact of imposing the APDT on these helicopter passengers, the Administration has proposed to remove the requirement imposed on Helicopter Hong Kong Limited to pay the passenger embarkation fee at the rate of \$18 per passenger, when the legislative proposal to extend the APDT to all helicopter passengers has been enacted. As passengers aged 12 or below are currently exempted from the APDT while the passenger embarkation fee applies to all helicopter passengers departing at the MFT Heliport, those families travelling with small children will have the impact of the tax further mitigated.

18. Helicopter Hong Kong Limited has also made submissions relating to the broader question of the Government's policy towards the development of the helicopter industry in Hong Kong, the rental charge for use of the MFT Heliport and charges on helicopter operations at the HKIA. Members recommend that these issues should be referred to the Legislative Council Panel on Economic Services for consideration.

Parking meter charges

19. The Administration proposes to increase the maximum level of on-street parking meter charges from \$2 to \$3 per 15 minutes for both revenue-raising and traffic management reasons.

20. At present, there are about 16 900 metered parking spaces in the territory. The policy objective of metering the parking spaces is to ration the heavy demand for the parking spaces in order to reduce traffic congestion arising from vehicles circulating for parking spaces in the area. To this end, it is the Government's target to contain the utilisation of the metered parking spaces to below 85%.

21. The Administration has provided results of surveys on the utilisation of the metered parking spaces in March 1999 (restricted to urban areas only) and March 2001 (**Appendix III**). It has pointed out that a comparison of the two survey results show that the utilisation rates of the majority of the on-street parking spaces have increased in 2001 with most utilisation rates being well over 85% during peak hours. The Administration considers that the proposed modest increase in meter charges would help achieve the objective of maintaining a 15% availability of the metered parking spaces at any time, while bringing about additional revenue for the Government.

Members' stances

22. Hon SIN Chung-kai has stated that the Democratic Party opposes the proposed increases relating to driving licences, vehicle licences and parking meter charges. Hon Mrs Miriam LAU Kin-yea has indicated that she has reservation about the proposal to impose the APDT on helicopter passengers departing Hong Kong at the MFT Heliport and may consider moving Committee Stage amendments (CSAs) in this regard. Hon Tommy CHEUNG Yu-yan has stated his opposition to the proposed increase in the duty rate for liquors with an alcoholic content of 30% or below, other than wine, and will consider moving a CSA to amend the provision.

Committee Stage amendments

23. The Administration will move two CSAs to the Revenue Bill 2001 as set out in **Appendix IV**.

24. The first CSA is a technical amendment to revise the calculation of additional fee for any unlicensed period since the previous vehicle licence expired. The CSA will enable the Transport Department to apply the pre-amended Schedule 2 fees for the whole day of 7 March 2001, instead of applying two different rates to two portions of the same day (before and after 2:30 pm).

25. Separately, due to an oversight, the Administration has not included in clause 3 of the Bill an increase in fees for the issue and renewal of probationary driving licences. The Administration therefore proposes to move a CSA to the effect that the fees for the issue and renewal of probationary driving licences should be increased by 10%.

Recommendation

26. The Bills Committee recommends that the Second Reading debates on the two Bills be resumed on 20 June 2001.

Advice sought

27. Members are invited to support the recommendations of the Bills Committee in paragraphs 18 and 26 above.

Bills Committee on Revenue Bill 2001 and Revenue (No.2) Bill 2001

Membership list

Chairman

Hon Margaret NG

Members

Hon HUI Cheung-ching

Hon CHAN Yuen-han

Hon CHAN Kam-lam

Hon SIN Chung-kai

Hon Howard YOUNG, JP

Dr Hon YEUNG Sum

Hon Mrs Miriam LAU Kin-yee, JP

Hon Andrew CHENG Kar-foo

Hon Tommy CHEUNG Yu-yan, JP

(Total : 10 Members)

Clerk

Ms Doris CHAN

Legal Adviser

Ms Bernice WONG

Date

12 May 2001

Appendix II

Driving licences

Table A

Licence	Estimated number of affected licences	Existing fee level	Proposed fee level	Fee increase
New driving licence	60,000	\$520	\$570	\$50
Renewable driving licence	20,000~	\$520	\$570	\$50
Learner driving licence	77,000	\$510	\$560	\$50
International driving permit	53,000	\$80	\$90	\$10
Duplicate driving licences/ driving instructor's licences	25,000	\$110	\$120	\$10
Driving instructor's licence	950	\$760	\$835	\$75
Temporary driving licence	100	\$250	\$275	\$25
Total	236 050			

~ The number of driving licence renewal per annum is estimated by assuming that the holders of the expired licences eligible for renewal will come for service on a pro-rata basis in 3 years' time i.e. from 2001-02 to 2003-04.

Vehicle licences

Table B

Licence	Estimated number of affected licences	Existing fee level	Proposed fee level	Fee increase
Private car licence	340,000	To be elaborated in <i>Table C</i>		
Motor cycle/motor tricycle licence	28,000	\$1,200	\$1,320	\$120

Table C

Private car licence	Estimated number of affected licences*	Existing fee level	Proposed fee level	Fee increase
<1 500 cc	108 120 (31.8%)	\$3,815	\$4,200	\$385
1 501 - 2 500 cc	161 160 (47.4%)	\$5,680	\$6,250	\$570
2 501 - 3 500 cc	52 020 (15.3%)	\$7,550	\$8,305	\$755
3 501 - 4 500 cc	9 860 (2.9%)	\$9 420	\$10 360	\$940
>4 501 cc	8 840 (2.6%)	\$11,215	\$12,340	\$1,125
Total	340 000			

* The percentages in this column are extrapolated from the split among private cars of different engine capacity shown in the record of car registrations as at March 2001.

Parking Meter Utilization Surveys in March 1999

Region	District	No. of Metered Parking Space	Average Utilization Rate	Utilization Rate during Peak hours*
Hong Kong	Central & Western	459	65%	75%
	Wan Chai	1,021	90%	90%
	Eastern	631	75%	74%
	Southern	521	53%	75%
	Total	2,632	71%	79%
Kowloon	Yau Tsim Mong	2,336	89%	91%
	Sham Shui Po	1,528	65%	73%
	Kowloon City	2,880	66%	77%
	Wong Tai Sin	499	85%	93%
	Kwun Tong	522	81%	92%
	Total	7,765	77%	85%
Overall Total		10,397	74%	82%

(* Peak hours from 1900 to 2100 hours on weekdays)

Parking Meter Utilization Survey, March 2001

Region	District	No. of Metered Parking Space	Average Utilization Rate	Utilization Rate during Peak hours*
Hong Kong	Central & Western	487	68%	80%
	Wan Chai	985	81%	87%
	Eastern	666	66%	77%
	Southern	527	80%	91%
	Total	2,665	74%	84%
Kowloon	Yau Tsim Mong	2,148	93%	95%
	Sham Shui Po	1,545	69%	77%
	Kowloon City	2,823	70%	81%
	Wong Tai Sin	499	68%	89%
	Kwun Tong	491	84%	90%
	Total	7,506	77%	86%
NT NT(E)	Sai Kung	929	69%	88%
	Sha Tin	1,233	75%	85%
	Tai Po	977	84%	85%
	North	864	64%	67%
	Sub-total	4,003	73%	81%
NT(W)	Tsuen Wan	579	96%	98%
	Kwai Tsing	480	85%	89%
	Tuen Mun	956	89%	92%
	Yuen Long	658	92%	94%
	Lantau Island	39	-	-
	Sub-total	2,712	91%	93%
	Total	6,715	82%	87%
Overall Total		16,886	78%	86%

(* Peak hours from 1900 to 2100 hours on weekdays)

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"or ending on 7 March";

- (b) in paragraph (b)(ii), by deleting "beginning at or after 2.30 p.m. on 7 March" and substituting "after 7 March".