

Bills Committee on Revenue Bill 2002 and Revenue (No.2) Bill 2002

Administration's response to comments raised by the public

District Councils

District Council Member	Comments	Administration's Response
Mr Chan Chit-kwai, Central and Western DB	(1) Support strengthening the import control on tobacco and wine in order to suppress their consumption in Hong Kong.	(1) Noted.

Trade practitioners

Trade practitioner	Comments (Summary)	Administration's Response
Hong Kong Hotels Association	<p>(1) Hotel industry enjoys lower net margins than normal retail wine sales especially for high grade wine. Increase in duty will therefore have greater effect on wine prices in hotels. Demand for, and hence import of, high-grade wines will reduce. This will affect the choices available to visitors.</p> <p>(2) Wine prices in hotels have been a source of complaint by visitors. Hong</p>	<p>(1) As duty is levied on the ex-factory price of wine, rather than its far higher retail price, the actual effect of the proposed increase in duty will be minimal. The mild increase in duty would only translate into a marginal percentage increase in the retail price for most wines.</p> <p>(2) We have surveyed the prices of 20 samples of wine at four hotels, covering hotels of different grades. For 18 of the samples, the additional duties amount to 1.20% to 3.41% of the retail prices in mid-May. The percentage is 5.13% and 6.37% for the remaining two samples. These percentages are generally lower than those for wines sold at supermarkets. They point to the</p>

	<p>Kong cannot afford to have higher wine duty to further depress Hong Kong's competitiveness as a tourism destination.</p> <p>(3) Duty on goods is against the spirit of free trade and duty worldwide is reducing. Increasing wine duty is contrary to the obligations of China's accession to WTO.</p>	<p>same conclusion that the proposed increase in duty is very mild, and is expected to have minimal effect on the trade. Details of the survey findings are at Annex A.</p> <p>(3) While Hong Kong has only one excise duty on wine, other economies commonly have a number of taxes on wine. In broad terms, we understand that the average duty payable on wine in Hong Kong does not compare unfavourably to the rates in most economies in the region. We do not expect the mild increase in duty to affect our competitiveness vis-à-vis other economies.</p> <p>(4) As far as we understand, over the past two years, no complaint has been received by the Consumer Council, the Hong Kong Tourism Board or the Tourism Commission on wine price or duty in Hong Kong.</p> <p>(5) The Mainland and Hong Kong, China are separate customs territories. The Mainland's accession to WTO does not affect our participation in the WTO as a separate member. Under the principle of "One Country, Two Systems", Hong Kong, China will continue to formulate its own trade policies. In any case, our excise duty is levied on both locally-produced and imported alcohol, and hence, it is not an import tariff and does not fall under WTO's jurisdiction.</p>
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<p>The Soho Association Limited</p>	<p>(1) Duty increase has affected wine sales at Soho. Sales for the more expensive wines (with ex-factory price above \$140 per bottle) have dropped considerably. Outlets where wine constitutes up to 30% or more of total sales have seen a notable drop in revenue. Most outlets are reluctant to pass on the costs to the customer.</p> <p>(2) The assumption that the ex-factory price of wine is about 15% of retail price does not apply to the Soho shops. Government should investigate the effect of duty increase on Soho shops, hotels and Lan Kwai Fong shops.</p> <p>(3) The estimated additional revenue of \$70 million a year may not be realized as the demand for wine is elastic.</p> <p>(4) In order for wine-making companies and importers to invest in Hong</p>	<p>(1) As duty is levied on the ex-factory price of wine, rather than its far higher retail price, the actual effect of the proposed increase in duty will be minimal. The mild increase in duty would only translate into a marginal percentage increase in the retail price for most wines.</p> <p>(2) We have surveyed the prices of nine samples of wine at three restaurants in Soho. Ex-factory price represents 17% of the retail price before duty increase on average, with the actual percentages ranging from 8.5% to 33.7%. For seven of the samples, the additional duties amount to 1.70% to 4.18% of the retail price. The percentages were 5.73% and 6.75% for the remaining two. In dollar terms, the additional duties range from \$3.72 to \$43.00 per bottle. The restaurants reported a 9% increase (ranging from \$19.7 to \$64.4) in retail price for six of the nine samples after the duty increase. Details of the survey findings are at Annex B.</p> <p>(3) We have also surveyed wine prices at hotels, and restaurants in Lan Kwai Fong. Please refer to the response to the Hong Kong Hotels Association for the results regarding hotels. For Lan Kwai Fong, for eight of the nine samples, the additional duties amount to 1.34% to 4.65% of the retail price per bottle before duty increase. The percentage was 5.85% for the remaining sample. In dollar terms the additional duties range from \$2.03 to \$43.07</p>
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	<p>Kong, they should be more competitive with other Asian cities. Raising wine duty runs counter to encouraging investment in Hong Kong.</p>	<p>per bottle. The restaurants reported an 8% increase (ranging from \$16.5 to \$58.9) in retail price for eight of the nine samples after the duty increase.</p> <p>(4) We have not observed a decline in duty-paid quantity of wine after the proposed duty increase. The quantity has actually risen by 35% from February to March 2002 (when the duty increase was implemented), though it has dropped by 14% from March to April. The overall quantity in April was about 739,000 litres. For wines having ex-factory prices over \$140, duty-paid quantity has remained stable at about 15,400 litres per month in February, March and April.</p> <p>(5) Given that the increase in duty is very mild, and given the stable revenue stream (at about \$220 million per annum) from wine in the past few years, we expect the proposal to be revenue productive.</p> <p>(6) While Hong Kong has only one excise duty on wine, other economies commonly have a number of taxes on wine. In broad terms, we understand that the average duty payable on wine in Hong Kong does not compare unfavourably to the rates in most economies in the region. We do not expect the mild increase in duty to affect our competitiveness vis-à-vis other economies.</p> <p>(7) Our policy is to keep Hong Kong's taxation system simple and transparent. The tax rates</p>
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		<p>are among the lowest in the world. Our notable strengths include not only the low corporate tax rate, but also the non-taxation of profits derived outside Hong Kong. Besides, many taxes that are present in other jurisdictions are absent here. These features of our tax system make it attractive to investors and businessmen.</p>
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Finance Bureau
May 2002

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Survey of wine - Hotel

(a) Sample	(b) Retail price per bottle in mid-May 2002 (HK\$)	(c) Ex-factory price per bottle (HK\$)	(d) Duty per bottle before proposed increase in duty rate (HK\$)	(e) Duty as percentage of retail price in mid-May 2002 (d)/(b)	(f) Additional duty per bottle (HK\$) (d) x 33.33%	(g) Additional duty as percentage of retail price in mid-May 2002 (f)/(b)
Hotel #1						
1	2,560.00	175.50	105.30	4.11%	35.10	1.37%
2	1,560.00	117.52	70.51	4.52%	23.50	1.51%
3	1,556.00	93.11	55.87	3.59%	18.62	1.20%
4	375.00	35.08	21.05	5.61%	7.02	1.87%
5	330.00	25.97	15.58	4.72%	5.19	1.57%
Hotel #2						
6	2,288.00	587.25	352.35	15.40%	117.45	5.13%
7	1,388.00	191.93	115.16	8.30%	38.39	2.77%
8	1,088.00	175.60	105.36	9.68%	35.12	3.23%
9	328.00	45.18	27.11	8.27%	9.04	2.76%
10	318.00	41.53	24.92	7.84%	8.31	2.61%
Hotel #3						
11	2,150.00	314.88	188.93	8.79%	62.98	2.93%
12	1,200.00	204.56	122.74	10.23%	40.91	3.41%
13	920.00	122.14	73.28	7.97%	24.43	2.66%
14	550.00	79.28	47.57	8.65%	15.86	2.88%
15	300.00	21.58	12.95	4.32%	4.32	1.44%
Hotel #4						
16	1,480.00	471.44	282.86	19.11%	94.29	6.37%
17	830.00	140.87	84.52	10.18%	28.17	3.39%
18	540.00	86.32	51.79	9.59%	17.26	3.20%
19	390.00	48.48	29.09	7.46%	9.70	2.49%
20	300.00	38.69	23.21	7.74%	7.74	2.58%

Survey of wine - Western restaruant

Annex B

Western Restaruant (Soho)

(a) Sample	(b) Retail price per bottle in early March 2002 before proposed duty increase (HK\$)	(c) Ex-factory price per bottle (HK\$)	(d) Ex-factory price as percentage of retail price in early March 2002 (HK\$) (c)/(b)	(e) Duty per bottle before proposed increase in duty rate (HK\$)	(f) Duty as percentage of retail price in early March 2002	(g) Additional duty per bottle (HK\$) (e) x 33.33%	(h) Additional duty as percentage of retail price in early March 2002	(i) Retail price per bottle in mid-May 2002 (after proposed duty increase) (HK\$)
1	218.35	18.59	8.5%	11.15	5.11%	3.72	1.70%	238.00
2	357.80	120.70	33.7%	72.42	20.24%	24.14	6.75%	390.00
3	458.72	95.77	20.9%	57.46	12.53%	19.15	4.18%	500.00
4	185.00	25.05	13.5%	15.03	8.12%	5.01	2.71%	185.00
5	375.00	36.16	9.6%	21.70	5.79%	7.23	1.93%	375.00
6	750.00	215.00	28.7%	129.00	17.20%	43.00	5.73%	750.00
7	256.88	26.85	10.5%	16.11	6.27%	5.37	2.09%	280.00
8	715.60	144.77	20.2%	86.86	12.14%	28.95	4.05%	780.00
9	550.46	61.20	11.1%	36.72	6.67%	12.24	2.22%	600.00

Western Restaruant (Lan Kwai Fong)

(a) Sample	(b) Retail price per bottle in early March 2002 before proposed duty increase (HK\$)	(c) Ex-factory price per bottle (HK\$)	(d) Ex-factory price as percentage of retail price in early March 2002 (HK\$) (c)/(b)	(e) Duty per bottle before proposed increase in duty rate (HK\$)	(f) Duty as percentage of retail price in early March 2002	(g) Additional duty per bottle (HK\$) (e) x 33.33%	(h) Additional duty as percentage of retail price in early March 2002	(i) Retail price per bottle in mid-May 2002 (after proposed duty increase) (HK\$)
1	190.00	10.13	5.3%	6.08	3.20%	2.03	1.07%	190.00
2	206.48	18.72	9.1%	11.23	5.44%	3.74	1.81%	223.00
3	206.48	48.00	23.2%	28.80	13.95%	9.60	4.65%	223.00
4	287.04	20.54	7.2%	12.32	4.29%	4.11	1.43%	310.00
5	504.63	80.88	16.0%	48.53	9.62%	16.18	3.21%	545.00
6	736.11	215.33	29.3%	129.20	17.55%	43.07	5.85%	795.00
7	694.44	127.50	18.4%	76.50	11.02%	25.50	3.67%	750.00
8	347.22	23.31	6.7%	13.99	4.03%	4.66	1.34%	375.00
9	462.96	51.50	11.1%	30.90	6.67%	10.30	2.22%	500.00