

**Bills Committee on Revenue Bill 2002 and Revenue (No.2) Bill 2002
Administration's response to comments raised by the public**

Trade practitioners

Trade practitioner	Comments (Summary)	Administration's Response
Topsy Trading Co. Ltd.	<p>(1) Hong Kong's wine duty is one of the highest in the world.</p> <p>(2) Some merchants cheat wine duty by under-invoicing. Others organize with travel agents and hire travellers to bring wine back from Macao to skip the duty in Hong Kong.</p> <p>(3) Wonder if all individuals who import wine for personal use pay Hong Kong wine duty fully.</p> <p>(4) Urge for a fixed amount of duty based on the volume of wine to stop smuggling of wine.</p>	<p>(1) 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.</p> <p>(2) The Customs & Excise Department (C&ED) verifies the invoice prices submitted by duty-payers by checking them against relevant payment records, sales contract, price list and other supporting documents. If the invoice price are likely not to be in line with the price actually paid or payable or if no invoice can be produced for duty assessment, C&ED would liaise with the customs authority or wine sellers of the economy from where the wines are imported to verify the market price prevailing at the time of transaction. If under-invoicing is involved, the duty-payer is liable to an offence of duty evasion under the Dutiable Commodities Ordinance. The penalty is a fine of \$1,000,000 and imprisonment for two years. In 2001, only one company was convicted for under-invoicing relating to wine. In 2000, there was no conviction.</p>

		<p>(3) We will not be complacent. C&ED has been stepping up enforcement against duty evasion by conducting more verifications of liquor prices declared by licensees.</p> <p>(4) It is not clear from the submission how the travellers to Macao would bring wine back to Hong Kong and skip duty. Persons who take dutiable goods into Hong Kong in excess of the duty-free quantities allowed without declaring at border check points nor paying for duty are liable to an offence. The penalty under a compounding arrangement is 5 times the duty payable on the dutiable goods concerned plus a fine at level 1. In 2000 and 2001, 31 and 37 persons respectively were convicted of this offence in relation to liquors.</p> <p>(5) It is not clear from the submission why Topsy Trading Co. Ltd. wonders if all individuals who import wine for personal use pay Hong Kong wine duty fully. Individuals who import wine for personal use are required to become a licensee and pay duty under the Ordinance. The price basis for duty assessment is the same as that for corporate wine importers. Importing wine without a licence and not paying duty is an offence with a penalty of \$1,000,000 and 2 years of imprisonment.</p> <p>(6) The present <i>ad valorem</i> system for duty on alcoholic beverages was adopted in 1994 because of its advantages as a progressive duty, and a stable source of revenue. We have not observed any increase in duty evasion nor smuggling relating to wine after we adopted the present</p>
--	--	---

		system. There was in fact no reported wine smuggling case in 2000 and 2001.
Mr Ronald Suen of Tiffany	<p>(1) The <i>ad valorem</i> system is unfair to expensive wines. Suggest that a specific duty of \$30 per bottle should be adopted.</p> <p>(2) Many tourists complain that wine is too expensive in Hong Kong.</p> <p>(3) Duty increase would induce more smuggling activities, particularly through tour groups, and under-invoicing involving wine sellers in the Mainland and Macao.</p> <p>(4) Duty increase would affect the wine industry and Hong Kong's development as a wine distribution centre.</p>	<p>(1) The present <i>ad valorem</i> system for duty on alcoholic beverages was adopted in 1994 because of its advantages as a progressive duty, and a stable source of revenue. In 2001, out of 12.25 million bottles of wine consumed, over 70% attracted a duty below \$16. If the proposed \$30 specific duty were adopted, this bulk of wine would be subject to a substantial increase in duty by at least 88%.</p> <p>(2) 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. It is unlikely that the mild increase, which would only translate into a marginal percentage increase in the retail price for most wines, would damage the wine industry. Furthermore, as wine which is imported for re-export is not subject to duty, the rate of duty on wine is not relevant to Hong Kong's position and development as a wine distribution centre.</p> <p>(3) As regards the comments on smuggling activities, please refer to the Administration's response to Topsy Trading Co. Ltd. above.</p>
Lan Kwai Fong Association	<p>(1) Tourists often find wine in Hong Kong more expensive than in other</p>	<p>(1) As duty is levied on ex-factory price of wine, rather than its far higher retail price, the actual effect of the proposed increase in duty will be minimal. It is unlikely that the mild</p>

	<p>countries. Duty increase does not serve Hong Kong well in terms of its image as an affordable tourist destination.</p> <p>(2) Monies generated from wine duty will not compensate for the loss of income from tourists.</p>	<p>increase, which would only translate into a marginal percentage increase in the retail price for most wines, would damage the tourist industry.</p>
--	--	--

Consulate General

Consulate General	Comments (Summary)	Administration's Response
Australian Consulate General	<p>(1) Duty increase is likely to reduce wine consumption. Enjoyment of wine by average people seems certain to become rarer.</p> <p>(2) Consumers may switch to lower taxed and untaxed beverages and to illicit sources of smuggled wine, defeating the aim of raising revenue.</p> <p>(3) Duty increase will deter trade. Concerned about the effect on Australian export to Hong Kong.</p> <p>(4) Duty increase</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. In fact, 70% of wine consumed in 2001 attracted a duty below \$16 per bottle. They will attract an additional maximum of only \$5.3 per bottle. It is unlikely that the mild increase, which would only translate into a marginal percentage increase in the retail price for most wines, would affect wine consumption, trade in wine nor the tourist industry in any significant way.</p> <p>(2) Given that the increase in duty is very mild, and given the stable revenue stream (at</p>

	<p>adversely affects Hong Kong's tourism industry and tourist expenditure. It would contribute to the perception that Hong Kong is a high cost destination.</p> <p>(5) Duty increase will make it more difficult to develop Hong Kong as a wine centre for Asia.</p>	<p>about \$220 million per annum) from wine in the past few years, we expect the proposal to be revenue productive.</p> <p>(3) As wine imported for re-export is not subject to duty, the rate of duty on wine is not relevant to Hong Kong's position and development as a wine distribution centre.</p>
New Zealand Consulate General	<p>(1) Duty increase will result in fall in consumption.</p> <p>(2) May result in a decline in New Zealand's wine export to Hong Kong. It would also impact on Hong Kong's transport, distribution, wholesaling and retailing sectors.</p> <p>(3) Would negatively affect Hong Kong's status as a duty-free port and shopping centre.</p> <p>(4) Runs counter to the global trend towards general decrease in tariffs and duties.</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. It is unlikely that the mild increase, which would only translate into a marginal percentage increase in the retail price for most wines, would affect wine consumption, trade in wine nor the wine-related industries in any significant way.</p> <p>(2) 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. In any case, our excise duty is levied on both locally produced and imported alcohol, hence it is not an import tariff.</p>

bills/response-3.doc