FIN CR 2/7/2201/01
FIN CR 6/7/2201/01

LEGISLATIVE COUNCIL BRIEF

REVENUE BILL 2002
REVENUE (No. 2) BILL 2002

INTRODUCTION

At the meeting of the Executive Council on 9 April 2002, the Council ADVISED and the Chief Executive ORDERED that the Revenue Bill 2002 and the Revenue (No.2) Bill 2002, at **Annexes A and B** respectively, should be introduced into the Legislative Council to implement the revenue proposals in the 2002-03 Budget.

BACKGROUND AND ARGUMENT

The 2002-03 Budget

2. In his Budget Speech on 6 March, the Financial Secretary announced the following revenue proposals: -

(a) an increase in the ***ad valorem*** duty on wine to 80% from the existing rate of 60%; and

(b) a reduction in the quantities of duty-free tobacco and alcoholic liquor that Hong Kong residents may bring back by 40% and 25% respectively. The new quantity of duty-free tobacco will be 60 cigarettes or 15 cigars or 75 grammes of other manufactured tobacco, and that of alcoholic liquor will be 750 millilitres of still wine, which is the standard size for a bottle of wine.

3. To give effect to the above proposals, we propose to introduce two separate bills into the Legislative Council, the Revenue Bill 2002 and the Revenue (No. 2) Bill 2002.

Revenue Bill 2002

4. The Revenue Bill 2002 implements the proposal in paragraph 2(a) above to increase the duty on wine. This measure has no bearing on livelihood and will not hinder economic recovery. It is expected to have minimal impact on the consumption of wine, as the duty is levied on the ex-factory price, rather than its retail price. For purposes of revenue protection, this proposal has come into effect from 2.30 p.m. on 6 March under the Public Revenue Protection (Revenue) Order 2002. The Order gives legal effect to the proposal for a maximum period of four months. The proposal will cease to have effect as from 6 July should the Revenue Bill 2002 not be passed by then by the Legislative Council.

Revenue (No. 2) Bill 2002

5. The Revenue (No. 2) Bill 2002 implements the proposal to reduce the quantities of duty-free tobacco and alcoholic liquor which may be brought back by local residents on return to Hong Kong as set out in paragraph 2(b) above. The proposal will take effect after the Bill is passed by the Legislative Council.

6. As with the proposal to raise the duty on wine, this measure has no bearing on livelihood and will not hinder economic recovery. According to the Customs and Excise Department's estimates, local residents bring back 1.4 billion sticks of duty-free cigarettes every year. Assuming some local residents purchase more tobacco products in Hong Kong to compensate for reduction in the duty-free allowance, local consumption of tobacco products would rise and more duties from tobacco would be paid. (The proposed reduction in the duty-free allowance of wine is not expected to have any material impact on duty revenue, as the current limit of 1 litre is normally not fully-utilised.)

7. We do not expect the proposal to lead to a surge in illicit cigarette activities. The Customs and Excise Department will continue to conduct regular spot checks on travellers to ensure that they do not bring in tobacco products or wine exceeding the duty-free limits.

THE BILLS

Revenue Bill 2002

8. The Revenue Bill 2002 amends the Dutiable Commodities Ordinance. **Clause 1** provides that the Bill, when enacted, shall be deemed

to have come into operation at 2.30 p.m. on 6 March 2002. **Clause 2** amends Schedule 1 to the Dutiable Commodities Ordinance to increase the ***ad valorem*** duty on wine to 80% from the existing rate of 60%.

Revenue (No. 2) Bill 2002

9. The Revenue (No. 2) Bill 2002 amends the Dutiable Commodities (Exempted Quantities) Notice. **Clause 2** amends section 1(2) of the Notice to reduce the quantity of duty-free still wine that a Hong Kong resident may bring back for his own use from 1 litre to 750 millilitres, and that of duty-free tobacco from 100 cigarettes or 25 cigars or 125 grammes of other manufactured tobacco to 60 cigarettes or 15 cigars or 75 grammes of other manufactured tobacco.

PUBLIC CONSULTATION

10. Owing to the confidentiality of the Budget, no formal consultation was carried out specifically in respect of the proposals in the two Bills. However, in formulating them, we took into account views received during the Budget consultation process from legislators and other concerned parties in the community.

BASIC LAW IMPLICATIONS

11. The Department of Justice advises that the proposed Bills do not conflict with those provisions of the Basic Law carrying no human rights implications.

HUMAN RIGHTS IMPLICATIONS

12. The Department of Justice advises that the proposed Bills are consistent with the human rights provisions of the Basic Law.

BINDING EFFECT OF THE LEGISLATION

13. The proposed Bills will not affect the current binding effect of the Dutiable Commodities Ordinance or its subsidiary legislation.

FINANCIAL AND STAFFING IMPLICATIONS

14. We estimate that the proposed increase in duty on wine would bring about additional revenue of $70 million in a full year. The proposed reduction in the quantities of duty-free tobacco and alcoholic liquor for local residents is estimated to bring about additional revenue of $330 million in a full year. There are no staffing implications.

ECONOMIC IMPLICATIONS

15. Neither revenue proposal is expected to affect economic growth. The proposed increase in duty on wine is expected to have minimal effect on the retail price and consumption of wine. The proposal to reduce quantities of duty-free tobacco and alcoholic liquor will not affect the competitiveness of our tourist industry as we are not proposing to reduce the quantities allowed to non-residents.

SUSTAINABILITY IMPLICATIONS

16. The revenue proposals in the Bills do not have significant sustainability implications.

LEGISLATIVE TIMETABLE

17. The legislative timetable is -

Publication in the Gazette	12 April
First Reading and commencement of Second Reading debate	17 April
Resumption of Second Reading debate, committee stage and Third Reading	to be notified

PUBLICITY

18. We will issue a press release on 12 April 2002.

ENQUIRIES

19. In case of enquiries about this brief, please contact Miss Erica Ng, Principal Assistant Secretary for the Treasury (Revenue), at 2810 2370.

Finance Bureau

12 April 2002

budget02-03/bills/legcobf-revbills.doc

A BILL

To

Amend the Dutiable Commodities Ordinance to increase the duty on wine.

Enacted by the Legislative Council.

1. Short title and commencement

(1) This Ordinance may be cited as the Revenue Ordinance 2002.

(2) This Ordinance shall be deemed to have come into operation at 2.30 p.m. on 6 March 2002.

Dutiable Commodities Ordinance

2. Schedule 1 amended

Schedule 1 to the Dutiable Commodities Ordinance (Cap. 109) is amended in paragraph 1 of Part I, under the column headed "Rate", by repealing "60%" and substituting "80%".

Explanatory Memorandum

This Bill amends the Dutiable Commodities Ordinance (Cap. 109) to give effect to the proposal in the Budget introduced by the Government for the 2002-2003 financial year to increase the duty on wine.

A BILL

To

Amend the Dutiable Commodities (Exempted Quantities) Notice to reduce the quantities of alcoholic liquor and tobacco exempted from duty.

Enacted by the Legislative Council.

1. Short title

This Ordinance may be cited as the Revenue (No. 2) Ordinance 2002.

Dutiable Commodities (Exempted Quantities) Notice

2. Quantities of alcoholic liquor and tobacco exempted from duty

Section 1(2) of the Dutiable Commodities (Exempted Quantities) Notice (Cap. 109 sub. leg.) is amended –

(a) in paragraph (i), by repealing "one litre" and substituting "750 millilitres";

(b) in paragraph (ii), by repealing "100 cigarettes or 25 cigars or 125" and substituting "60 cigarettes or 15 cigars or 75".

Explanatory Memorandum

This Bill amends the Dutiable Commodities (Exempted Quantities) Notice (Cap. 109 sub. leg.) to give effect to the proposal in the Budget introduced by the Government for the 2002-2003 financial year to reduce the duty-free quantities of alcoholic liquor and tobacco which a Hong Kong resident may bring into Hong Kong for his own use.