

THE ASSOCIATION  
OF INTERNATIONAL  
ACCOUNTANTS

HONG KONG BRANCH

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MRS SELINA CHOW'S OFFICE

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6 June 2006

The Hon Mrs. Selina CHOW LIANG Shuk-ye  
Chairman of Betting Duty (Amendment) Bill 2006  
Legislative Council  
Legislative Council Building  
8 Jackson Road, Central  
Hong Kong

Dear Selina,

**Bills Committee on Betting Duty (Amendment) Bill 2006**

At the meeting of the Legislative Council on 24 May 2006, the Association of International Accountants Hong Kong Branch ("AIA Hong Kong") was asked to further comment on the impact of the change of taxation on horse race betting duty from turnover-based to a tax on gross margins and the proposed rebate on large bets on the government's revenue. The AIA Hong Kong is supportive to the proposal as it provides an opportunity for the government to stabilize the revenue from horse race betting at the current level against further reduction for the next three years. It further provides the government the right to review two years after the implementation of the new system to see if it produces the desirable results and to consider whether it should be continued or changed back to the current system if appropriate.

According to the background information provided in the Proposed Reforms to the Duty System for Horse Race Betting, the turnover on horse race betting has been declining steadily and significantly in recent racing years from \$92.4 billion in 1996-97 to \$62.7 billion in 2004-5. The Government's revenue from betting duty on horse race betting has correspondingly fallen from \$12.3 billion to \$8.4 billion. The Hong Kong Jockey Club ("HKJC") forecasted that the betting turnover would further decline if no action is taken to tackle the decline. Government's revenue from the proposed progressive marginal duty system with duty to be charged at 72.5% of the net stake receipts up to \$11 billion, increasing by half a percentage point for the increases of every \$1 billion in the receipts up to \$15 billion, and at 75% for the receipts exceeding \$15 billion, is largely in line with the current system of betting duty at 12% on betting turnover for standard bets and 20% for other bets. However, unlike the current duty system which is based on gross turnover, any additional incentives given by HKJC to attract additional revenue will be shared by the government in the ratio of 72.5% to 75% if the new system has been implemented. The government may also incur additional costs in the administration, assessment and collection of the duty under the new system comparing to the existing one. The guarantee by HKJC of the duty payable in each of the three years from implementation of no less than \$8 billion plus the amount of duty in respect of any qualified bets enable the government to maintain revenue at a steady level, as they are receiving currently, for the next three years, while it can enjoy the possibility of increased revenue should HKJC be successful in gaining additional revenue from the illegal gambling market in horse race betting, the estimated size of which is about \$50 billion to \$60 billion, as estimated by HKJC. If the government does not think that HKJC may gain enough additional net revenue to justify the continuation of the new duty system, it is up to the government to decide whether the new system should be terminated after the guarantee period.



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According to a survey commissioned by HKJC and as disclosed in the Proposed Reform, about 60% of the bettors have received from illegal bookmakers a discount of 8% to 10% on bets. HKJC proposes to be allowed to provide rebates to high-value bettors in order to increase HKJC's competitiveness against illegal bookmakers. The rebates thus provided will reduce the turnover and hence the government's revenue, the level of which cannot be quantified without detail information. It will not have impact on the bettors, including those who pay in full, if dividend payments to the winning bettors are calculated based on turnover before rebate and HKJC does not change its existing policy to pay out the turnover after deducting an amount equal to the betting duty and commission to itself totaling 17.5% - 25% as the case may be. The shortfall in government's revenue as the result of the provision of rebates may be partly or wholly compensated by the additional turnover gained from the illegal gambling market. It is possible that all parties may benefit if more turnover can be attracted.

The AIA Hong Kong Branch has considered the economic and social implications and the impact on government revenue based on the limited financial information on hand. The AIA Hong Kong Branch is of the view that the proposed new system provides the flexibility and enhances the efficiency of HKJC to compete with the illegal bookmakers and also provides stable revenue to the government for at least the next three year.

Thank you for your attention of above.

Yours sincerely,



Tommy Lok FAIA FCPA  
Chief Executive Officer

c.c. Mr. Tommy Tam, JP, President of AIA  
Mr. Fung Wai Ying, President of AIA Hong Kong Branch