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Report of the Bills Committee on Revenue Bill 2007

Purpose

This paper reports on the deliberations of the Bills Committee on Revenue Bill 2007 (the Bill).

Background

2. In the 2007-08 Budget, the Financial Secretary (FS) proposed a number of concessionary revenue measures, amongst which include:

- (a) reduction in duty on alcoholic beverages to promote the development of the catering industry, tourism and wholesale and retail alcoholic beverage trade in Hong Kong, thereby benefiting the community at large; and
- (b) reduction in stamp duty on transactions of properties valued between \$1 million and \$2 million to help more lower-to-middle-income families to own their residences.

3. The Chief Executive made the Public Revenue Protection (Revenue) Order 2007 on 28 February 2007 to enable the Revenue Bill 2007, which comprises the legislative amendments for the above proposals, to take effect from 11:00 am on that day. However, since pursuant to section 5(2) of the Public Revenue Protection Ordinance (Cap. 120), the Order only gives a four-month temporary legal effect to the Bill, the Administration has formally introduced the Revenue Bill 2007 into the Legislative Council (LegCo) on 2 May 2007.

The Bill

4. The Bill seeks to amend:

- (a) Schedule 1 to the Dutiable Commodities Ordinance (Cap. 109) to reduce the duty on wine from the existing ad valorem rate of 80% to 40% and

that on alcoholic beverages with an alcoholic strength not more than 30% (other than wine) from 40% to 20%; and

- (b) the Stamp Duty Ordinance (Cap. 117) to extend the fixed stamp duty of \$100 to properties valued between \$1 million and \$2 million in respect of conveyances on sale and agreements for sale of immovable property.

The Bills Committee

5. At the House Committee meeting on 4 May 2007, Members agreed to form a Bills Committee to study the Bill. Under the chairmanship of Hon CHAN Kam-lam, the Bills Committee has held three meetings, including a meeting with deputations. The membership list of the Bills Committee is at **Appendix I**. A list of organizations that have submitted views to the Bills Committee is at **Appendix II**.

Deliberations of the Bills Committee

6. In general, members are in support of the objectives of the proposed concessionary measures to benefit consumers and to facilitate lower-to-middle-income families to own their residences. While members have not raised any objection to the proposed reduction in stamp duty, they have expressed concerns about the proposed reduction in duty on alcoholic beverages as according to their observation, the savings in duty have not been passed onto consumers through reduction in the retail prices of some of the alcoholic beverages, contrary to the undertaking of the relevant trades prior to the announcement of the duty reduction in the 2007-08 Budget.

Reduction in duty on alcoholic beverages (Proposed amendments to the Dutiable Commodities Ordinance (Cap.109) ("DCO"))

Policy considerations

7. The Bills Committee has sought the Administration's explanation on its policy considerations for the proposed reduction in duty on alcoholic beverages, as well as the anticipated benefits brought about by the reduction. In this regard, the Administration has referred to the 2007-08 Budget Speech, in which FS has stated that reducing the duty on alcoholic beverages will help promote the development of Hong Kong's catering industry, tourism and wholesale and retail alcoholic beverage trade, thereby benefiting the community at large.

8. On whether and how far the anticipated benefits have been realized, the Administration has advised that as the duty reduction has only been implemented for some three months since 28 February 2007, it is too early to make a comprehensive assessment of the effectiveness of the concessionary measure at this point in time. Nevertheless, members note that according to the statistics provided by the Administration, between February and March 2007, the quantity of wine import has

increased by 74%, while that of beer import has increased by 32%. The Administration has indicated that it would expect the market to continue to respond positively to this concessionary measure over time.

Price adjustments of alcoholic beverages

9. The Bills Committee notes that duty on alcoholic beverages is levied on a product's ex-factory price. According to the 2006 statistics of the Customs and Excise Department (C&ED), the average duty levied on a 330ml bottle of beer is about \$0.57 (40% of ex-factory price) and that on a 750ml bottle of wine is about \$24.4 (80% of ex-factory price). Therefore, assuming a constant ex-factory price, the average duty saving after the duty reduction announced in the 2007-08 Budget is about \$0.29 for a bottle of beer and \$12.20 for a bottle of wine.

10. To ascertain how far the duty concession has benefited consumers, members have sought information on the retail price adjustments, if any, after the implementation of the reduction in duty on 28 February 2007. According to the Hong Kong Wine and Spirits Industry Coalition (HKWSIC), most wine importers have been selling their products at reduced prices with effect from 1 April 2007 to pass on their duty savings to their customers. A list of selected wine products provided by HKWSIC shows reduction in post-Budget retail prices ranging from 6% to 37%. As informed by the Hong Kong Beer Coalition, which represents more than 80% of the beer importers in Hong Kong, the amount of price reduction of major brands of beer after the reduction in duty has more or less reflected the average duty savings per bottle. The Bills Committee also notes the findings of an informal price comparison conducted by C&ED on 10 most popular (in terms of quantity of import) brands of wine products (comparing their prices as in July 2006 and as at 3 May 2007), which shows that their retail prices at major supermarkets or department stores have all been reduced after the Budget by an extent ranging from some 8% to 49%. With the amount of duty savings ranging from \$1.68 to \$30.14 per bottle, the reduction in retail prices for these 10 products are in the range of \$2.5 to \$80. For some wine products, the reduction in price is even greater than the amount of saving in duty.

11. At the request of the Bills Committee, the Consumer Council (CC) has also provided its findings in a survey conducted between February and May 2007 on the prices of selected alcoholic beverages. The survey covered 29 samples of beer and wine (10 beer brands, 10 red wine brands and 9 white wine brands) which are either popular among households or sold at affordable prices to average consumers. The results of the survey show that after the reduction in duty on alcoholic beverages, there is reduction in the retail prices of certain wines but upward price adjustments have been found in respect of individual brands. Nevertheless, for most of the samples covered in the survey, there have been no significant changes in prices. CC has submitted to the Bills Committee that consumers have a reasonable expectation for the reduction in duty on alcoholic beverages to be reflected in the retail prices of the products. If this is not the case, the public should be given a proper explanation.

Benefits to consumers by way of reduction in retail prices

12. Noting that reducing the duty on alcoholic beverages will cost the Government about \$350 million a year, members of the Bills Committee are keen to ensure that the revenue "foregone" by the Government, or the savings on duty, will be duly passed onto consumers, instead of being shared by the wine and beer trades and other intermediaries. Members have recalled that when lobbying for their support for reduction in duty on alcoholic beverages, the relevant trade associations have undertaken to pass on duty savings to consumers. Now that the reduction in duty has been implemented for some three months, members are concerned that the reduction in retail prices of alcoholic beverages has not been commensurate with the reduction in duty. They are concerned that consumers and the community at large have not been able to benefit from the revenue concessionary measure.

13. In submitting views to the Bills Committee, organizations from the wine and beer trades, supermarket chains, the catering and hotel sectors welcome the reduction in duty on alcoholic beverages. HKWSIC has assured members of its commitment to passing on tax savings to consumers, and is proactively working with the trade to ensure that retail prices will be reduced. Following the announcement of the reduction in duty in the 2007-08 Budget, HKWSIC distributed letters to the trade, highlighting the new price lists which fully reflect the tax reduction for wine products. HKWSIC has also undertaken to monitor and review the prices of wine in a consistent manner and will continue to outreach to hotels, restaurants and bars to ensure that savings are passed onto consumers. From the data provided by HKWSIC on store checks of some 90 brands of wine comparing prices in March 2006 (pre-Budget price) and prices in May 2007 (post-Budget price), an average price reduction of 15% has been recorded. Nevertheless, the Bills Committee has noted that for some reasons, the duty savings on wine products may not have been fully translated into reduction in retail prices. These factors included retailers' need to clear the duty-paid stock acquired before the duty reduction announced in the Budget, as well as the impact of other variable costs affecting retail prices of alcoholic beverages such as the appreciating value of the currencies of some wine-exporting countries like Australia and Europe.

14. In examining the retail prices of beer products, the Bills Committee notes from the Hong Kong Beer Coalition that beer products undergo a complicated and multi-tiered process involving manufacturers, importers, wholesalers and retailers before they reach the consumers. While local importers shoulder the duty, companies at each tier of distribution manage their own costs and profit margins before ultimately setting their retail prices. With the complicated and multi-tiered nature of beer business, the Hong Kong Beer Coalition has made efforts to ensure that consumers will benefit most from the duty reduction through a three-pronged approach, namely, reducing the prices of beer products by issuing a new price list to the trade effective from 1 April 2007; passing on the benefits to consumers through more favourable and frequent price discounts; and providing customers with more and bigger reward promotions and other means such as event sponsorships. Examples provided by the Hong Kong Beer Coalition to the Bills Committee include free gifts, a complimentary can of beer for purchases of a certain quantity and sponsoring the

recent Cheung Chau Bun Festival on 24 May 2007.

15. On the basis of available information, members consider that by and large, the wine trade has made efforts to lower the retail prices of wine products to reflect the reduction in duty. They call on HKWSIC to work in collaboration with its members and other trade operators (including supermarket chains, restaurants, hotels and bars) to continue their efforts in this regard. However, as far as beer products are concerned, members are gravely concerned that the duty reduction has not been duly reflected in the retail prices. Members do not subscribe to the Hong Kong Beer Coalition's explanation that benefits to consumers have been in the form of promotional offers and event sponsorships. They hold the view that the duty concession should be translated into reduction in retail prices for the direct benefit of consumers, instead of being used in the context of the marketing and promotional strategies of individual beer brand names. They disapprove of such a business practice which is in the interest of individual beer companies rather than consumers and has in effect broken the trust built up between the industry, the Government and the legislature. Some members consider that the complicated and multi-tiered nature of the beer supply chain is not an excuse for the failure of the beer industry to reduce the retail prices of beer products. The Bills Committee has urged the Administration to liaise further with the beer industry and CC to ensure that the amount of duty saving on beer products will be suitably reflected in the retail prices for the direct benefit of consumers as soon as possible.

16. Responding to the Bills Committee's concerns, the Administration has engaged the Hong Kong Beer Coalition in further discussion on 25 May 2007, following which the Hong Kong Beer Coalition has given an undertaking in writing of its commitment to passing on duty savings to consumers by reflecting all duty savings directly on the new price lists of beer products with effect from 1 June 2007. Members note that this is an on-going commitment on the part of the Hong Kong Beer Coalition which will also provide the relevant information to the Administration for monitoring. The Bills Committee also notes that on 26 May 2007, FS has publicly urged the industry to keep its promise to reduce prices.

17. The Administration has assured members that it will continue to monitor the changes in retail prices of beer products through price lists provided by the Hong Kong Beer Coalition and with the assistance of CC. As the price lists contain commercially sensitive information, the Hong Kong Beer Coalition has not consented to releasing it to third party including LegCo. Nevertheless, the Administration believes that as the wine/beer trades are keen to lobby for support for further reduction in duty on alcoholic beverages in the longer term, it is expected that they will give effect to their commitment and undertaking. Given the large number of retail outlets in the market, members note that it may be impracticable for the wine/beer suppliers or the Administration to monitor the retail prices at each and every outlet. However, consumers and the public at large can also play a role in keeping a close watch on the price levels.

18. The Bills Committee notes that the hotel industry welcomes the reduction in duty on alcoholic beverages and is committed to adjusting the retail prices of alcoholic

beverages to reflect the reduction in duty. Nevertheless, the reduction in retail prices is a gradual process as hotels may need time to sell their pre-Budget stocks. In this regard, members have called on the hotel industry to take more proactive steps to reduce the retail prices of alcoholic beverages in order that consumers can benefit as early as possible.

Members' views and further proposals

19. While welcoming the Hong Kong Beer Coalition's undertaking on its ongoing commitment to reflect all duty savings directly in their new price lists with effect from 1 June 2007, members have expressed their views on whether it is appropriate to support the amendments to the DCO as currently proposed under the Bill.

20. In this connection, the Bills Committee has examined the Committee Stage amendment (CSA) proposed by Hon SIN Chung-kai to clause 2 of the Bill to provide a validity period of one year, from 28 June 2007 to 30 June 2008 (both dates inclusive), for the reduction in duty on alcoholic beverages. According to Mr SIN, his proposed CSA is consistent with the policy intent for the duty reduction. However, in order to ascertain the benefit, if any, of the duty concession on consumers and how effectively the trades, especially the beer trade, have delivered their undertakings, it is prudent to provide for a one-year validity period and subject the duty reduction to annual reviews. If the outcome is encouraging, the duty reduction can be extended or made permanent or further adjusted downwards through the necessary legislative amendments. The Bills Committee also notes that at present, the concessionary duty rate on ultra-low sulphur diesel is also subject to reviews and approval by LegCo by way of resolution under the DCO. In expressing support for Mr SIN's proposed CSA, Hon LEE Cheuk-yan has cautioned that the wine/beer trades may increase their prices again once the Bill is enacted. The one-year period will facilitate monitoring and help ensure that the industry will exercise prudence in setting their prices. Hon TAM Heung-man and Hon CHAN Yuen-han have also cast doubt on whether the Hong Kong Beer Coalition's undertaking can provide sufficient assurance that the duty savings will be duly passed onto consumers.

21. Hon Tommy CHEUNG, Hon WONG Ting-kwong and Hon Abraham SHEK have indicated that they do not support Hon SIN Chung-kai's proposed CSA. In their view, instead of relying solely on the oversight by the Government and CC, market competition among different brands of alcoholic beverages and different retail outlets (such as supermarkets and restaurants) and consumers' choices will serve as effective checks and balances to keep retail prices down. Under a free-market economy like Hong Kong, the members have cautioned about the adverse implications arising from any government attempt to monitor or regulate the prices of non-essential products such as alcoholic beverages. On the merits or otherwise of subjecting the duty reduction to annual or periodic reviews, both the Administration and the members have highlighted the need to provide certainty and predictability to the business sector. They consider that frequent revisions of the duty rates on alcoholic beverages are not conducive to the business planning and operation of the wine/beer trades. Moreover, as the macro-economic situation and the Government's fiscal position are taken into

consideration by FS when preparing the Annual Budgets, the Administration is in a position to propose adjustments to the duty rates on alcoholic beverages where circumstances so warrant. Hence, the members do not consider it necessary to limit the duty reduction to one year for the purpose of assessing the need or otherwise for its continued implementation.

22. The Bills Committee has also noted Hon James TIEN's view that the duty rates on wine and beer are too high and should be further reduced to bring them on par with the prevailing arrangements of neighbouring territories like Macau and Singapore. Referring to Hon SIN Chung-kai's proposed CSA, Mr TIEN has indicated that Members of the Liberal Party may consider whether to propose another CSA the effect of which is to further reduce, or even abolish, the duty rates on alcoholic beverages for the one-year period. If the outcome of such further reduction/abolition is not satisfactory, the rates may revert to their previous levels (i.e. 80% for wine and 40% for beer products) after the one-year period. The Bills Committee also notes the preliminary advice of its legal adviser that such a CSA may have a charging effect on government revenue. Some members have however commented that further reduction/abolition in duty rates may not necessarily result in a reduction in tax revenue as the resultant increase in economic activities and in the sale of alcoholic beverages may have the effect of boosting government revenue.

23. Regarding the Administration's policy stance on the duties on alcoholic beverages and whether there is any intention to abolish them in the short term, the Administration has confirmed that during the Budget consultation period, there were suggestions that the Budget should be more visionary. For instance, the duty on alcoholic beverages should be abolished to boost economic activities, increase employment and promote the development of Hong Kong as the region's wine exhibition, trading and logistics centre. The Administration has further clarified in response to the Bills Committee that while FS has indicated willingness to consider this innovative idea further if it enjoys broad community support, it is not a measure to be considered in the context of the current Bill.

Follow-up action

24. Noting that the wine/beer trades have made commitments to pass on the duty savings to consumers and that the Hong Kong Beer Coalition has agreed to provide relevant information to the Administration to facilitate the latter in monitoring its undertaking, the Bills Committee has agreed that following re-organization of the policy bureaux, the relevant Panel(s) will be invited to consider whether and how to follow up the matter in due course.

25. The Bills Committee has also requested the Administration to confirm during the Second Reading debate on the Bill that having regard to the Bills Committee's concerns, it will continue to keep in view the retail prices of alcoholic beverages in conjunction with the wine/beer trades and CC. The Administration has taken note of the Bills Committee's request.

Reduction of stamp duty on property transactions (Proposed amendments to the Stamp Duty Ordinance (Cap. 117))

26. The Bills Committee notes that the proposed reduction in stamp duty on transactions of properties valued between \$1 million and \$2 million from 0.75% to a fixed amount of \$100 will cost the Government about \$250 million a year. The Bills Committee supports this concessionary measure which will enable home buyers, particularly the lower-to-middle income families, to acquire their residences at lower cost.

Committee Stage Amendments

27. The Bills Committee will not move any CSAs in its name and notes that the Administration will not move any CSAs to the Bill. The Bills Committee has noted that Hon SIN Chung-kai will move a CSA in his personal capacity.

Recommendation

28. The Bills Committee supports the resumption of the Second Reading debate on the Bill.

Consultation with the House Committee

29. The House Committee was consulted on 1 June 2007 and supported the recommendation of the Bills Committee in paragraph 28.

Bills Committee on Revenue Bill 2007

Membership list

Chairman	Hon CHAN Kam-lam, SBS, JP
Members	Hon James TIEN Pei-chun, GBS, JP Hon LEE Cheuk-yan Hon CHAN Yuen-han, JP Hon SIN Chung-kai, JP Hon Howard YOUNG, SBS, JP Hon Abraham SHEK Lai-him, JP Hon Tommy CHEUNG Yu-yan, JP Hon Vincent FANG Kang, JP Hon Alan LEONG Kah-kit, SC Hon WONG Ting-kwong, BBS Hon TAM Heung-man
	(Total : 12 Members)
Clerk	Miss Polly YEUNG
Legal Adviser	Mr Stephen LAM
Date	14 May 2007

Bills Committee on Revenue Bill 2007

**Organizations which have submitted views on the
Revenue Bill 2007 to the Bills Committee**

1. Consumer Council
2. The Democratic Party
3. The Federation of Hong Kong Hotel Owners
4. The Hong Kong Food, Drink and Grocery Association – The Hong Kong Beer Coalition
5. Hong Kong Hotels Association
6. Hong Kong Wine & Spirits Industry Coalition
7. Lan Kwai Fong Holdings Limited
8. PARKnSHOP Hong Kong
9. Watson's Wine Cellar
10. Wellcome Company Limited