

財經事務及庫務局
(庫務科)
香港下亞厘畢道
中區政府合署



FINANCIAL SERVICES AND
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6 July 2010

Mr Noel Sung
Clerk to Panel on Financial Affairs
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Dear Mr Sung,

Legislative Council Panel on Financial Affairs
Follow-up Actions

In respect of items 1, 2 and 4 in the list of follow-up actions, the Administration's response is provided in the ensuing paragraphs.

Item 1: Report in the year after increasing the tobacco duty rates by 50%

The 2009-10 Budget proposed to increase tobacco duty rates by 50%. In examining the Dutiable Commodities (Amendment) Bill 2009, the Administration, in response to the request of the Bills Committee, undertook to provide the following information to the Legislative Council within six months to one year after enactment of the Bill -

- (a) effectiveness of the Administration's efforts in combating illicit cigarette activities;
- (b) statistics on changes in the number of smokers in Hong Kong;
- (c) sales figures of duty-free cigarettes and the duty involved; and
- (d) measures taken by the Administration to increase the business opportunities of newspaper hawkers.

Effectiveness of the efforts in combating illicit cigarette activities

Since the tobacco duty rates were increased by 50% in late February 2009, the Customs and Excise Department (C&ED) has strengthened its manpower in combating illicit cigarette activities at different levels, including smuggling, storage, distribution and retail. In the light of complaints about increased peddling of illicit cigarettes and use of leaflets to promote the sale of illicit cigarettes, C&ED has enhanced intelligence collection and carried out intensive raids against such illegal activities. Between March 2009 and April 2010, the number of illicit cigarette cases detected increased by 47.8% while the quantity of illicit cigarettes seized decreased by 21.8% over the same period in the previous year (see Annex). This demonstrates that C&ED's efforts in combating illicit cigarette activities have delivered results to deter such illegal activities. In addition to enforcement actions, C&ED has also stepped up its publicity to arouse public awareness that it is against the law to buy illicit cigarettes and that there are potential hazards in consuming counterfeit cigarettes which may contain unknown ingredients.

Changes in the number of smokers

Between March 2009 and April 2010, the quantity of duty-paid cigarettes fell by 23% compared with the same period in the previous year. To track the changes in the number of smokers, a Thematic Household Survey on the health status of Hong Kong residents conducted by the Census and Statistics Department between November 2009 and February 2010 has also covered a survey on the number of smokers among Hong Kong residents. It is expected that the survey would be completed and the findings be released in the third quarter this year.

Besides, in January this year, the Department of Health commissioned the Social Sciences Research Centre of the University of Hong Kong to conduct a telephone survey on tobacco control measures. The Centre interviewed 1 797 Hong Kong residents aged 15 or above. The survey findings reveal that 38% of the respondents who were smokers one year ago has reduced or ceased smoking in the past year. Among the respondents who have reduced smoking, 54.1% and 32.4% of them indicated that it was due to the smoking ban or the increase in tobacco duty respectively. For those who have ceased smoking in the past year, 74.1% and 18.3% of them indicated that it was due to health reasons or the increase in tobacco duty respectively.

We would like to point out that the increase in tobacco duty is only one of the measures under the Administration's overall tobacco control policy. Other major areas include legislation, enforcement, control on the sale of tobacco, public education, public awareness of the adverse effect of tobacco, and promotion of tobacco cessation services, etc. The Administration will continue to monitor the results of different measures (including the increase in

tobacco duty) under the tobacco control policy with a view to reviewing their effectiveness and to further considering how to enhance efforts in tobacco control.

Statistics on duty-free cigarettes

Between March 2009 and April 2010, a total of 1 916 848 000 sticks of duty-free cigarettes were brought into Hong Kong (sold at the duty-free shops in the arrival halls of the control points in Hong Kong and the duty-free shops in the departure halls of the control points in Lo Wu, Huanggang, Futian and Macao), representing a slight year-on-year decrease of 1.5%. The duty involved was approximately \$2,311.7 million.

Measures to increase the business opportunities of newspaper hawkers

To address the concern of newspaper hawkers' associations about possible decrease in incomes of licensed newspaper hawkers as a result of the increase in tobacco duty, the Food and Environmental Hygiene Department (FEHD) has relaxed the restriction on the sale of other goods at newspaper stalls. In September 2009, FEHD issued letters to all licensed newspaper hawkers informing them that they could apply for permission to sell four additional types of goods at their stalls, namely bottled distilled water, red packets, trinkets and prepaid SIM cards. At the same time, FEHD has also relaxed the restriction on the stall space for selling the additional goods by increasing the proportion of such space from not exceeding 25% of the total stall area to not more than 50%. In addition, FEHD has all along allowed newspaper hawkers to display at their stalls lawful advertisements for the permitted goods specified in their hawker licences.

Item 2 : Depreciation allowances in respect of machinery or plants under “import processing” arrangements

At the Panel meeting on 14 December 2009, Members requested the Administration to provide information on the number of tax assessment cases in the past few years where Hong Kong enterprises had been denied depreciation allowances under “import processing” arrangements pursuant to section 39E of the Inland Revenue Ordinance. As the Inland Revenue Department does not keep statistical breakdown on cases with claims of allowances rejected, the requisite information could not be provided.

Item 4 : Legislative proposals to enhance the efficiency of the existing tax appeal mechanism

At the Panel meeting on 4 January 2010, the Administration briefed Members on the legislative proposals to enhance the efficiency of the existing tax appeal mechanism. The Administration originally planned to introduce

the relevant legislative amendments into the Legislative Council in the latter half of the current legislative session. However, in the course of drafting the legislative amendments, a few unforeseeable legal issues arise and require thorough deliberation to ensure that the amended legislation would achieve our policy objective of improving the efficiency of the tax appeal mechanism. In the light of the current progress, the Administration now plans to introduce the relevant legislative amendments into the Legislative Council in the 2010-2011 legislative session. As tax appeal cases could still be handled under the existing tax appeal mechanism, the above revised legislative timetable is not expected to affect the public at large. We will provide the supplementary information as requested by the Panel when we submit the legislative amendments to the Legislative Council.

Yours sincerely,



(Ms Shirley Kwan)
for Secretary for Financial Services
and the Treasury

Encl

Annex

Statistics on Cases of Illicit Cigarettes Detected by C&ED

	March 2008 – April 2009	March 2009 - April 2010 (% of increase/decrease compared with the same period in the previous year)
Cases of smuggling, storage, distribution and peddling of illicit cigarettes	2 288 cases	3 383 cases (+47.8%)
Number of persons arrested	1 707	2 756 (+61.4%)
Number of illicit cigarettes seized	89.5 million sticks	69.9 million sticks (-21.9%)