**Extract from Minutes of meeting of Panel on Financial Affairs held on 19 February 2003**

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**V Briefing on the proposed Boundary Facilities Improvement Tax**
(LC Paper Nos. CB(1) 907/02-03(04) and 917/02-03(01))

24. The Chairman welcomed the Secretary for Financial Services and the Treasury (SFST) and other Government officials to the meeting. At the Chairman's invitation, SFST briefed members on the proposal to introduce the Boundary Facilities Improvement Tax (BFIT). He said that the proposed tax was first raised by FS in his Budget Speech in March 2002. It was the Government policy to facilitate the flows of people and trade between Hong Kong and the Mainland to strengthen economic link between the two places. In 2002, it was recorded that about 69 million passengers departing Hong Kong for the Mainland or Macau via land or sea control points and the number had been on the increase. In recent years, considerable resources had been invested to improve boundary facilities at the Lok Ma Chau (LMC) and Lo Wu check points. The collection of a BFIT would help finance the improvement of boundary facilities and mitigate the fiscal deficit. SFST then highlighted the proposed arrangements for BFIT as follows:

(a) To charge $18 per person for all persons departing Hong Kong via the land or sea control points with the exception of passengers departing by private cars. The tax for private car would be $100 per vehicle.

(b) Exemptions would be provided to boundary crossing full-time students, children under 12, drivers, crew members and other persons operating the land transport vehicles, ferries or cruise ships, passengers arriving in Hong Kong by reason of adverse weather or emergency or as transiting passengers, and visiting diplomats, consular members etc.

(c) A monthly concessionary tax rate at $270 would be provided for frequent commuters.

(d) An off-site collection method would be adopted for collecting the tax as far as practicable, i.e. the passenger would pay the tax together with the transport fare. As for private cars, the tax would be collected in arrears through a billing system with the aid of the Automatic Vehicle Recognition System (AVRS).

25. SFST advised that the Administration was drafting the legislation to implement BFIT and the target was to introduce the bill to the Legislative Council (LegCo) for scrutiny in about two months.

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Discussions with Members

*Proposed rates for BFIT and the impact on the fare of KCRC*

26. Mr Andrew CHENG asked whether the Administration had considered the impact of BFIT on the fare income of the Kowloon-Canton Railway Corporation (KCRC) and the financial burden on frequent commuters. Mr CHENG was concerned that the proposed tax would lead to a drop in the number of train passengers using the Sheung Shui-Lo Wu line to cross the border unless the fare was reduced. Such a fare cut would in turn put pressure on KCRC to raise fares for other routes, such as East Rail, in order to cover the fare loss. As a result, this might adversely affect the fare income of KCRC. The Government as the major shareholder of KCRC would suffer from income loss. Hence, the ultimate objective of raising additional revenue through the tax might be defeated. Mr CHENG doubted whether the Administration had conducted statistical analysis on this issue. He would appreciate that relevant information could be provided before the bill was introduced into LegCo. He further called on the Government to urge KCRC for a cross-border fare reduction.

27. Mr SIN Chung-kai concurred that the issue of KCRC fare should not be overlooked. He pointed out that the current fare of $9 from Hunghom to Sheung Shui vis-à-vis $33 from Hunghom to Lo Wu indicated that the cross-border passengers were heavily subsidizing those on the local routes. The high fare coupled with the proposed tax of $18 would mean a form of double taxation for cross-border passengers.

28. Mr CHAN Kam-lam said that the Democratic Alliance for the Betterment of Hong Kong considered that if BFIT were to be introduced, KCRC had to reduce its cross-border train fare. The Government should also allow other operators to operate cross-border transport services so that competitive services would be provided to commuters.

29. Mr Albert CHAN expressed strong opposition towards BFIT. He opined that the proposed tax was unfair to tourists and local citizens and would damage Hong Kong's reputation as a cosmopolitan city as no similar tax were introduced in other places.

30. Mrs Selina CHOW stated that the Liberal Party and the wholesale and retail sector were supportive to BFIT. However, she stressed that the proposed tax should not adversely affect the tourism industry. In this connection, she also cited the US as an example to illustrate that Hong Kong was not alone in the levy of such tax for financing passengers facilities at the border.

31. On the question of KCRC fare, Mrs Selina CHOW opined that the issue should be separately considered from the proposed tax. She stressed that determination of transport fares was a commercial decision of the operators with regard to competition and other commercial considerations. The issue to be considered should be whether BFIT would benefit the public at large.

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32. Sharing Mrs Selina CHOW's views, Mr Abraham SHEK remarked that historically the higher fare for KCRC cross-border route was to subsidize operation of other domestic routes so that their passengers could pay lower fares. He cautioned that downward adjustment in fare for Sheung Shui-Lo Wu route would put pressure on fares of other routes. BFIT should be considered in isolation and fare adjustment should be a commercial decision of KCRC. Mr SHEK further suggested that the name of BFIT should be changed to "Departure Tax" to better reflect the nature of the tax.

33. In response, SFST explained that KCRC was a commercial entity operating according to commercial principles. The cross-border train fare was a commercial decision and whether or not this would be reviewed was a matter for KCRC having regard to the affordability of the passengers at large and competition from other forms of public transport. He stressed that the full effect of BFIT on KCRC's overall operation remained to be seen and it would be inappropriate to make predictions at this stage. SFST re-iterated that the proposed tax rates were reasonable and would help finance the improvement of boundary facilities. Upon request of members, the Administration undertook to provide information on similar tax levied by other countries/places for members' reference.

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34. On the proposed tax rate for private car, Mr CHAN Kam-lam was in favour of charging $18 per passenger in the car than levying a fixed rate of $100 per vehicle as it would be fairer. On the other hand, Mr Bernard CHAN expressed support for taxing private car on a per vehicle basis. He considered the proposed rate of $100 an affordable amount but cautioned that the billing process had to be kept simple and cost-effective. Mr Abraham SHEK opined that the proposed rate of $100 per private car was on the low side.

35. On the tax rate for private car, SFST said that the proposed rate of $100 was generally affordable by car owners. Although the Administration's survey revealed that the average number of people per car crossing the border was only 2.5, charging tax on per vehicle basis would obviate the need to do the head counts at the check points thus avoiding obstruction to the smooth car flow.

*Mechanism for collecting BFIT*

36. Mr Howard YOUNG pointed out that the tourism industry was supportive to BFIT in general. However, he expressed concern over the method for collecting the tax, in particular, on the arrangements for the exemptions and concessions, as well as the use of AVRS.

37. With regard to the tax collection method, Mr CHAN Kam-lam opined that the Administration's proposal would create extra work for drivers and transport operators. He urged that consideration should be given to use the Octopus card system for collection of the tax and the Government should continue discussion with the transport operators to sort out the operational problems before implementing the tax.

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38. Mr James TIEN pointed out that while it would be easy for transport operators to implement the exemptions for boundary crossing full-time students and children under 12, there would be operational difficulties in implementing other exemptions. He understood that the transport industry had expressed concern on the issue and urged the Administration to work out the detailed arrangements in consultation with the industry.

39. In response, SFTS advised that the Administration was still discussing with the transport operators on the detailed arrangements for collecting the tax and the administration fees to operators to collect the tax on Government's behalf. The Administration was fully aware that the collection mechanism should be cost-effective and convenient to commuter. Various options of tax collection had been considered and "off-site" collection being the main collection method was recommended as it would not cause obstruction to the busy passenger and traffic flow at the control points.

40. With regard to the use of AVRS, the Assistant Commissioner for Transport explained that the system was currently installed at the check points. The car plate registration number would be photographed when the vehicles passed the check points and a bill would be issued to the car owners for payment afterwards. The Permanent Secretary for Financial Services and the Treasury (Treasury) supplemented that notwithstanding that additional manpower would be required for the Transport Department to administer the new billing system, the AVRS would be more cost-effective than installing a separate system for levying the tax. At the request of members, the Administration agreed to provide a paper on details of AVRS for collection of BFIT and comparing the cost-effectiveness against installing a new collection system.

(*Post-meeting note*: The paper was issued vide LC Paper No. CB(1) 1446/02-03 on 15 April 2003.)

*Other concerns*

41. In response to Mr IP Kwok-him's concern that the billing system might arouse personal privacy concern, SFST said that the Administration's proposals should comply with the privacy legislation and that the Administration had consulted the Office of the Privacy Commissioner for Personal Data.

42. Noting that passengers might choose to travel by bus via LMC check point instead of by train via Lo Wu in order to save transport cost, Mr IP Kwok-him was concerned whether the facilities at LMC would be sufficient to cope with the increased passenger flow. SFST remarked that it was up to individual passenger to choose the cross-boundary check point. As the facilities at LMC would be improved, the Administration did not envisage problem for the check point to take up the increased passenger flow.

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