For information
on 24 September 2003

Paper for Bills Committee on the Boundary Facilities Improvement Tax Bill

Purpose

This paper provides the Administration's response to the questions raised by Members at the meeting of the Bills Committee on the Boundary Facilities Improvement Tax Bill (the Bill) held on 2 July.

Practicability of on-site collection

Principal considerations

2. As explained at the last Bills Committee meeting, the Administration's principal considerations in proposing the mode of collection for the Boundary Facilities Improvement Tax (BFIT) are that collection and enforcement against evasion should not cause disruption or delay to the flows of people and vehicles, or crowd management problem at the control points; and that it should be convenient to the taxpayers. The Administration has carefully examined various options for collecting BFIT which include on-site collection but has come to the view that on-site collection is not desirable.

Cross boundary figures

3. There were on average 322,000 and 57,000 people using the land and sea boundary facilities respectively everyday in 2002. During the busy periods, the number of people passing through the busier land control point such as Lo Wu and Lok Ma Chau control points could be as high as 359,000 and 66,000 per day respectively. As regards vehicle flows, there were 24,000 vehicles crossing Lok Ma Chau on an average day in 2002, which went up to 26,500 during busy periods. The

numbers of the boundary crossing people and vehicles have been increasing substantially over the past 10 years and are expected to grow rapidly. Taking Lok Ma Chau as an example, the daily passenger and vehicle departure trips have grown by 436% and 76% respectively between 1996 and 2002.

Problems of on-site collection

4. Requiring each and every traveller to pay BFIT at the departure points will inevitably prolong the time they stay in the departure halls. Currently, immigration officers at, for example, Lo Wu Control Point only require 21 seconds on average to clear a departing person and the queuing time at the immigration counters is 15 minutes on average. If the officers have to, as advocated by some parties, collect tax coupon from the persons, check their exemption status, explain to them how to get a tax coupon if the tax-liable persons have not paid the tax etc., the immigration processing time and the queuing time may substantially increase depending on the procedures for checking and the knowledge of the travellers about BFIT. Besides, people who could not effect the tax payment at the counters (e.g. not knowing they have to buy tax coupon or forgetting to bring it) would have to turn back in a contra flow direction to get the coupon. This will lead to confusion and chaos, affecting the people in the queues.

5. The other option of on-site collection, i.e. installing collection tax machines inside the departure halls has other and yet similar drawbacks. Under this method, departing persons will have to queue up for payment of tax after or before immigration. The existing control points are limited in space. There is inadequate space to accommodate tax collection machines, payment office, queuing area for payment, passenger holding area for inspection of exemption status etc. in a way which would not cause disruption to people flow and inconvenience to taxpayers. The confusion and chaotic situations as described above would also occur to the queues for tax payment, especially during busy periods. Considering that there can be over 2000 people at any one time during busy hours waiting for departure inside the departure halls (at Lo Wu Control Point), it is not unforeseeable that a bottleneck or tailback will be created, thus causing serious adverse effects

on the flow of people. Even during the less busy hours, a slight hiccup will cause congestion at the departure halls, leading not only to delay to the people and vehicles, but also crowd control and safety problems under the worst case scenario, which may in turn lead to dangerous consequences.

6. In addition to the above crowd management problems, on-site collection at the Immigration or Customs clearance counters will distract Immigration and Customs officers from their primary duties of enforcing immigration and customs controls. It may undermine the service standard of our control point and compromise the effectiveness of immigration or customs control. The on-site collection method is not desirable from the security point of view.

7. Some advocates of on-site collection suggested that people would get used to the tax arrangements with experience and there would be less and less hiccups over time. However, currently, over 17% of the travellers who make use of our land and sea control points are non-HK Identity card holders and most of them are visitors. Tourists might lack knowledge of our local tax arrangements. They may not possess Hong Kong currency when they reach the boundary crossing points. It would not be in the interest of the development of our tourism industry if there is any disruption to boundary crossing, as the confusion and inconvenience would leave a bad impression among our visitors.

<u>Practicability of off-site collection</u>

8. As smooth flow of people is the paramount concern, tax collection activities should best be diverted away from the immigration halls and the control point areas. Under off-site collection, the flow of people at control points will not be delayed or obstructed due to tax collection activities, and it will be most convenient to taxpayers as they do not need to pay tax separately from their transport fare.

9. Off-site tax collection is the method used by ferry companies in respect of the Passenger Embarkation Fee (PEF) and by airlines in respect of the Air Passenger Departure Tax at the moment. In respect of departure by sea, the Administration considers that collection of BFIT

should best be performed by the sea operators, along the same line as the current arrangements for PEF. We expect little technical difficulty on the part of the sea operators. As regards land transport, the majority of land departures (about 80% of all passengers departing from land control points in 2002) is through Lo Wu. The Administration recommends that BFIT from train passengers to Lo Wu should be collected through Kowloon-Canton Railway Corporation (KCRC). Both KCRC and Octopus Cards Limited advise that it would be technically feasible to factor the BFIT into their ticket fare or use the Octopus card for the purpose. Currently, over 80% of KCRC's Lo Wu passengers use Octopus cards to pay ticket fares. As such, for most passengers, the need to pay BFIT should not cause any disruption or inconvenience. For the remaining land transport passengers, the proposal is for them to pay BFIT when paying transport fare.

10. The Administration recognises that with off-site collection the risks of tax evasion and under-collection would be higher than on-site collection. We will put in place appropriate monitoring and risk-management systems to minimise the risk of revenue leakage as far as possible. We will also put in place appropriate support mechanisms to help operators enforce the tax.

Consultation with transport operators

11. Since 2002, we have conducted several rounds of consultation with concerned transport operators on the proposed off-site collection method. Feedback from KCRC, majority of cross-boundary ferry, cruise, and coach operators is that generally off-site collection is feasible, although they have also expressed concerns and reservations on certain aspects of enforcement. Some of them have offered comments on the Bill, which have been incorporated as appropriate. Some operators have expressed objections to off-site collection, making counter-proposal on on-site collection.

12. Some of the operators have indicated a preference for the Administration to draw up operational manual/guidance notes to set out our requirements on collection and enforcement of the tax. In recent months, we have therefore drawn up a set of such manual/notes and are in

the process of consulting the concerned operators. Many of them have come back providing useful feedback suggesting, for example, that procedures should be streamlined to shorten the passenger processing time, the record-keeping and returns requirements should be simplified, better use of electronic payment, less onerous responsibilities on operators etc. They have expressed that Government should reimburse them for the administrative fee incurred in the tax implementation. We will consider their suggestions with a view to devising a set of reasonable and practical manual/notes for the use of operators.

Estimate of Revenue from BFIT

13. The proposal to levy a BFIT is estimated to generate about $1 billion of additional revenue each year for the Government on a recurrent basis, after deducting the revenue from the existing PEF which will be abolished upon introduction of BFIT.

14. The above estimate is based on 2002 departure figures. In 2002, a total of about 69,317,000 passengers and 1,009,000 private cars departed through all the land and sea boundary crossings of Hong Kong. Taking into account the offer of monthly tickets at $270 per month per person for some 40 000 frequent commuters, the exemptions and the deduction of the revenue of $0.18 billion from PEF, at a tax rate of $18 per person and $100 per private car, total revenue from BFIT would amount to about $1 billion a year.

15. According to the Planning Department's projections, the total number of land and sea arrivals and departures is projected to reach 251 million a year by 2016. Detailed forecasts of the cross-boundary passenger flows are at ***Annex***. Total number of private cars which make use of the boundary crossing points is projected to reach 9.7 million a year by 2016. These projections however have not taken into account the most recent initiatives such as the proposed Hong Kong-Zhuhai-Macao Bridge and the individual visit scheme.

Estimate of Recurrent Fund for Collection and Enforcement

16. The Administration estimates that a recurrent funding of $38 - 55 million per year will be required for the collection and enforcement of the BFIT. This mainly covers the payments to system providers, administration fees for transport operators and relevant agents for collecting the tax on behalf of the Government in respect of both land and sea departures, and staff cost and expenses of the Government.

17. The payments to system providers cover the recurrent payments payable to contractors/operators for the on-going management and maintenance of the tax collection and ticketing systems for BFIT purpose. This recurrent expenditure is estimated to range from $0 to $6 million, depending on whether it can be absorbed within existing resources. The recurrent staff cost and expenses for enforcing the tax are estimated to be around $16 million, supporting an implementation team with 32 staff which comprises accounting officers, transport officers and clerical officers.

18. The remaining (around $22 million to $33 million) is reserved for the payment of administration fee to transport operators and agents. As many of the operators are working on cost estimates, discussion on administrative fee has yet to be completed. We would only have a better idea as to how much this item of expenditure would amount to when discussions are completed.

Implications of BFIT on KCRC's Passenger Flow and Fare Income

19. As explained at the last Bills Committee meeting, the Administration has not examined whether or how the introduction of BFIT would impact on the businesses of transport operators. Hence we do not have any estimates in relation to BFIT's impact on KCRC's passenger flow/fare income. We have relayed Members' request for information to KCRC.

KCRC Fare Structure

20. As advised by the Environment, Transport and Works Bureau, KCRC implemented the separate fare structures in April 1984 for domestic and Mainland travel to reflect the substantial differences in the nature of travel, the resources required to provide the services, and the competitive environment faced by KCRC in the two markets. The fare differences were not attributed to a Government levy on the cross-boundary line fare and/or related charges in the past.

Treasury Branch
Financial Services and the Treasury Bureau
September 2003

Annex

Statistics on Annual Passenger Crossings at Land / Sea Control Points (1996 to 2002) and Projected Figures by 2016

Year	Lo Wu	Hung Hom (Through-train)	Lok Ma Chau	Man Kam To	Sha Tau Kok	Sub-total for Land Crossings	Macau Ferry Terminal	China Ferry Terminal	Ocean Terminal *	Harbour Control	Sub-total for Sea Crossings	Total for Land & Sea Crossings
1996	T : 47,976,070	T : 1,808,551	T : 3,121,357	T : 967,087	T : 1,024,428	**T : 54,897,493**	T : 13,308,020	T : 7,404,172	T :	T : 662,159	**T : 21,374,351**	**T : 76,271,844**
	A : 24,218,340	A : 875,600	A : 1,536,571	A : 475,680	A : 511,358	**A : 27,617,549**	A : 6,689,517	A : 3,582,761	A :	A : 330,506	**A : 10,602,784**	**A : 38,220,333**
	D : 23,757,730	D : 932,951	D : 1,584,786	D : 491,407	D : 513,070	**D : 27,279,944**	D : 6,618,503	D : 3,821,411	D :	D : 331,653	**D : 10,771,567**	**D : 38,051,511**
1997	T : 56,296,232	T : 1,551,440	T : 5,043,603	T : 928,970	T : 1,097,129	**T : 64,917,374**	T : 11,104,974	T : 6,920,497	T :	T : 826,966	**T : 18,852,437**	**T : 83,769,811**
	A : 28,433,809	A : 741,683	A : 2,431,219	A : 450,601	A : 541,048	**A : 32,598,360**	A : 5,599,213	A : 3,325,113	A :	A : 416,043	**A : 9,340,369**	**A : 41,938,729**
	D : 27,862,423	D : 809,757	D : 2,612,384	D : 478,369	D : 556,081	**D : 32,319,014**	D : 5,505,761	D : 3,595,384	D :	D : 410,923	**D : 9,512,068**	**D : 41,831,082**
1998	T : 66,105,559	T : 1,445,725	T : 7,521,761	T : 834,724	T : 1,119,591	**T : 77,027,360**	T : 10,712,154	T : 6,204,336	T :	T : 1,050,561	**T : 17,967,051**	**T : 94,994,411**
	A : 33,363,983	A : 674,167	A : 3,604,206	A : 405,623	A : 554,799	**A : 38,602,778**	A : 5,412,468	A : 2,913,609	A :	A : 529,510	**A : 8,855,587**	**A : 47,458,365**
	D : 32,741,576	D : 771,558	D : 3,917,555	D : 429,101	D : 564,792	**D : 38,424,582**	D : 5,299,686	D : 3,290,727	D :	D : 521,051	**D : 9,111,464**	**D : 47,536,046**
1999	T : 77,193,998	T : 1,773,397	T : 9,181,205	T : 948,058	T : 1,175,787	**T : 90,272,445**	T : 9,940,268	T : 6,114,691	T : 449,186	T : 935,885	**T : 17,440,030**	**T : 107,712,475**
	A : 39,074,783	A : 839,042	A : 4,377,478	A : 451,290	A : 575,594	**A : 45,318,187**	A : 5,004,842	A : 2,840,136	A : 222,799	A : 474,892	**A : 8,542,669**	**A : 53,860,856**
	D : 38,119,215	D : 934,355	D : 4,803,727	D : 496,768	D : 600,193	**D : 44,954,258**	D : 4,935,426	D : 3,274,555	D : 226,387	D : 460,993	**D : 8,897,361**	**D : 53,851,619**
2000	T : 86,472,363	T : 2,019,115	T : 10,957,405	T : 1,017,145	T : 1,243,368	**T : 101,709,396**	T : 10,285,622	T : 6,854,612	T : 1,544,054	T : 554,382	**T : 19,238,670**	**T : 120,948,066**
	A : 43,840,290	A : 955,045	A : 5,173,376	A : 478,138	A : 600,912	**A : 51,047,761**	A : 5,192,256	A : 3,174,439	A : 769,318	A : 284,799	**A : 9,420,812**	**A : 60,468,573**
	D : 42,632,073	D : 1,064,070	D : 5,784,029	D : 539,007	D : 642,456	**D : 50,661,635**	D : 5,093,366	D : 3,680,173	D : 774,736	D : 269,583	**D : 9,817,858**	**D : 60,479,493**
2001	T : 89,505,440	T : 2,189,457	T : 12,556,427	T : 1,070,754	T : 1,315,356	**T : 106,637,434**	T : 9,713,640	T : 8,035,234	T : 1,600,368	T : 667,765	**T : 20,017,007**	**T : 126,654,441**
	A : 45,399,877	A : 1,040,895	A : 5,981,786	A : 511,243	A : 623,688	**A : 53,557,489**	A : 4,884,662	A : 3,755,240	A : 788,131	A : 351,047	**A : 9,779,080**	**A : 63,336,569**
	D : 44,105,563	D : 1,148,562	D : 6,574,641	D : 559,511	D : 691,668	**D : 53,079,945**	D : 4,828,978	D : 4,279,994	D : 812,237	D : 316,718	**D : 10,237,927**	**D : 63,317,872**
2002	T : 95,714,525	T : 2,362,896	T : 16,720,036	T : 1,140,825	T : 1,697,283	**T : 117,635,565**	T : 10,103,854	T : 8,728,219	T : 1,454,519	T : 675,500	**T : 20,962,092**	**T : 138,597,657**
	A : 48,520,465	A : 1,157,877	A : 8,222,853	A : 544,541	A : 787,581	**A : 59,233,317**	A : 5,000,947	A : 3,975,523	A : 714,216	A : 356,588	**A : 10,047,274**	**A : 69,280,591**
	D : 47,194,060	D : 1,205,019	D : 8,497,183	D : 596,284	D : 909,702	**D : 58,402,248**	D : 5,102,907	D : 4,752,696	D : 740,303	D : 318,912	**D : 10,914,818**	**D : 69,317,066**
# 2016						**T : 224,399,000**					**T : 26,971,000**	**T : 251,370,000**

Remarks : T : Total Figures
A : Arrival Figures
D : Departure Figures
* Ocean Terminal has been put into operation since September 1999.

\# Projected Figures, including passenger crossings at new land and sea control points