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14 May 2013

Legislative Council Secretariat
Council Business Division 2
Legislative Council Complex
1 Legislative Council Road
Central Hong Kong
(Attn: Ms Alice Leung)

Dear Ms Leung,

Bills Committee on Betting Duty (Amendment) Bill 2013

**List of follow-up actions arising from the discussion
at the meeting on 8 May 2013**

I refer to your letter of 10 May 2013. Our reply to Appendix II of your letter is set out in the ensuing paragraphs.

Paragraph 1

Horse race betting is conducted predominantly on a pari-mutuel basis¹. Dividend payment to Hong Kong bettors under a larger pool of an outbound commingling arrangement does not necessarily increase because the total number of winners in the jurisdictions concerned may increase as well. Commingling would not entice more people to bet either because according to the industry's understanding, only a small group of enthusiastic racing fans and major bettors are interested in non-local races. In addition,

¹ According to section 6B of the Betting Duty Ordinance, pari-mutuel betting means betting on the terms that any dividend payable on a bet depends on the respective shares of all winning bettors in the total amount of dividends available.

there is a language barrier for the majority of the grass-root local bettors. The time difference between Hong Kong and some of the host countries constitutes an added deterrent factor.

Paragraph 2(a) – benefits brought about by implementing two-way commingling on horse race betting

A betting pool may be managed by a horse race betting conductor as a “separate pool”. If the local and non-local betting pools concerned are managed as a “commingled pool”, the participating jurisdictions follow the same dividend distribution rates for the bet type(s) concerned. This would reduce the possibility of illegal bookmakers taking advantage of arbitrage of odds differences as a result of the existence of multiple separate pools in various jurisdictions in respect of the same bet type on the same race, thus discouraging off-shore and illegal bookmaking activities.

Paragraph 2(c) – estimations on the existing size of offshore and illegal bookmaking activities

As explained above, commingling could help combat offshore and illegal bookmarking activities. It is, however, difficult if not impossible to provide an accurate estimation on the size of such activities and the extent to which such activities would be diverted to the authorized betting channels.

Paragraph 2(d) – progressive duty rates and flat rate

The policy objective for changing the betting duty for horse race betting from turnover-based to a tax on net stake receipts since the 2006/07 racing season was to combat illegal bookmaking activities on horse race betting. Under the duty system introduced by the Betting Duty (Amendment) Bill 2006, a single set of duty rates has been applied to the net stake receipts irrespective of bet types. A progressive marginal duty system has been adopted, with duty to be charged at 72.5% of the net stake receipts up to \$11 billion, increasing by half a percentage point for increases of every \$1 billion in the receipts up to \$15 billion, and at 75% for the receipts exceeding \$15 billion. The above rates largely reflect the Government’s share of the racing receipts vis-à-vis the Hong Kong Jockey Club under the turnover-based system.

The current progressive tax rates would continue to be applied to local bets on local races which contributed 97.2% of the total net stake receipts generated from horse race betting in 2011/12. As far as non-local races are concerned, for greater certainty on the taxation arrangement in the Hong Kong Jockey Club’s negotiations with non-local jurisdictions, we

consider that it is not unreasonable to adopt a flat betting duty rate for local bets on non-local races and for such purpose to pitch the flat rate at 72.5%. As a matter of fact, according to the figures provided by the Hong Kong Jockey Club, the annual amount of net stake receipts arising from local bets on non-local races is around \$240 million on average in the last three racing seasons, falling within the tax band for the first \$11 billion of net stake receipts where the lowest duty rate (i.e. 72.5%) is applicable. The above taxation adjustments should not have material impact on government revenue.

Paragraph 2(e) – three-year guarantee period

The objective of the proposed guarantee is to ensure that there would no revenue loss for the Government due to the introduction of a new betting duty structure for local bets on non-local races in the initial period of the new commingling arrangements. We do not seek to maximize government revenue from the racing business in the long run. With reference to the duration of guarantee provided by the Hong Kong Jockey Club in the last betting duty reform in 2006, the Government and the Hong Kong Jockey Club have agreed in principle that a guarantee lasting for three years should be reasonable for the purpose of protecting government revenue during the transitional period. As a matter of fact, the annual amount of net stake receipts generated from local bets on non-local races is around \$240 million on average in the last three racing seasons, representing only 1.8% of the average annual total net stake receipts generated from horse race betting in the same period of time.

We understand that the rest of the follow-up questions will be addressed by the Hong Kong Jockey Club separately.

Yours sincerely,



(Miss Winnie Tse)
for Secretary of Home Affairs

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