

*Protection of revenue on dutiable commodities and motor vehicle first registration tax*

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The Audit Commission ("Audit") conducted a review of the efforts of the Customs and Excise Department ("C&ED") in protecting government revenue from excise duties on dutiable commodities ("DCs") and motor vehicle first registration tax.

2. According to the Dutiable Commodities Ordinance (Cap. 109), excise duties are levied on four types of commodities for domestic use or consumption, namely liquors, tobacco, hydrocarbon oil and methyl alcohol (collectively referred to as DCs), no matter they are imported or manufactured locally. Under the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330), motor vehicle first registration tax is levied on all motor vehicles for use in Hong Kong. C&ED is responsible for the protection and collection of excise duties, and the assessment of provisional taxable values of vehicles, while motor vehicle first registration tax is collected by the Transport Department. In protection of excise duties, C&ED discharges its responsibility by providing customs clearance of inbound and outbound cargoes by air, land and sea, clearance of entry passengers and combating smuggling.

3. The Committee noted the following findings from the Director of Audit's Report:

- customs clearance of DC consignments entering or exiting Hong Kong was used to detect duty evasion and non-compliance with the conditions specified on DC permits. Of the 2 461 permits issued for the import/export of DCs by sea via public cargo working areas in 2014, C&ED did not impose permit conditions for 700 (28%) permits to enable its staff to arrange checking of DCs. Moreover, of the 6 962 permits issued for the import/export of DCs through land control points in 2014, 232 (3%) did not have the necessary endorsement, and the permit holders of 10 cases did not present DCs for customs clearance at the control points. However, C&ED only prosecuted one case and verbally reminded the permit holders of the remaining nine cases, including two who had multiple cases of non-compliance, to comply with the customs-clearance permit condition;
- Audit's sample checking of 127 cases of customs clearance at land control points in 2014 revealed that the scope of cargo examination for 48 (38%) cases fell short of C&ED's laid-down requirements;

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- as at April 2015, 34 owners had DCs left idle for more than three years in 11 warehouses. An ageing analysis conducted by Audit of these DCs showed that 43.2% of 42 224 bottles of liquor and 80.8% of 313 178 packs of tobacco had been kept in the warehouses for over 10 years. Despite C&ED had urged warehouse operators to contact DC owners for arranging their DCs to be removed or their records in the warehouse updated, C&ED staff had not followed the guidelines to serve notices on the owners concerned;
- there were inadequacies in C&ED's management of seized goods and documentary exhibits. In 2013, Internal Audit Division of C&ED found a shortage in the physical quantity of motor spirit stored in its Chai Wan godown since seizure in 2002 as compared to the stock record. In July 2015, Audit found five similar cases and one case of mislaid documentary exhibits. C&ED considered that the above discrepancies in the quantities of the seized motor spirit were due to natural evaporation. However, for all six cases, C&ED did not report any discrepancies in its stocktaking exercises during the period of storage; and
- due to the prosecution time bar specified in the Motor Vehicles (First Registration Tax) Ordinance, investigations of suspected offences in relation to 152 vehicles in 2012 were not conducted.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding C&ED's enforcement actions against the cases of non-compliance with customs-clearance permit conditions and abuse of duty-free cigarette concession, the handling of idle DC stocks in bonded warehouses and long outstanding cases of seized goods and vehicles, and the timeframe for introducing the legislative amendments of the Motor Vehicles (First Registration Tax) Ordinance. The replies from Secretary for Financial Services and the Treasury and Commissioner of Customs and Excise are in *Appendices 69 and 70* respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.