BY FAX AND BY POST
(2530 5921)

Our Ref.: C/TXG, M33118 5 February 2005

Principal Assistant Secretary for the Treasury (Revenue),
Treasury Branch,
Financial Services and the Treasury Bureau,
4th Floor, Central Government Offices,
Main Wing, Lower Albert Road,
Hong Kong.

Dear Sir,

Duty on Alcoholic Beverages Consultation Document

With reference to the Duty on Alcoholic Beverages Consultation Document, requesting comments on whether the existing system and rates for the duty on alcoholic beverages should be changed, the views of the Hong Kong Institute of Certified Public Accountants (HKICPA) on the questions raised in the consultation are set out below.

(a) Do you agree that the duty on alcoholic beverages products should be retained in some form?

The question of alcohol duty was also raised in the consultation documents on the 2005/06 Budget produced by the government. Responding to this, in our budget submission to the Financial Secretary, we expressed some doubt that abolishing the duty on alcoholic beverages in Hong Kong would have the effect of facilitating wine tourism or Hong Kong's development as a regional hub for wine products, particularly given the competition from wine-producing countries in the region. We noted that the current consultation document points out that abolishing alcohol duty would not directly foster trading, because liquor for export and re-export is not subject to duty.

Alcohol duty provides a stable source of revenue, of HK$700 million to HK$800 million each year and it serves, in some measure, to discourage over-consumption of alcoholic beverages in Hong Kong. Under the circumstances, the Institute believes that the duty on should be retained as a form of tax.

(b) Do you consider the existing ad valorem system for the duty on alcoholic beverages appropriate?

(c) Do you consider the existing duty rates for the duty on alcoholic beverages appropriate?

(d) If you consider that changes should be made to the current system/rates, what changes do you consider the most appropriate? Do you prefer any of the options set out in paragraphs 15 to 24 of the consultation document?

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(e) Given the current financial position of the government, we believe that the effect of any change in the current system and rates of duty should, as far as possible, be revenue neutral. We also consider that any change in the duty should not be such as to (a) make the system unnecessarily complicated or create further distortions, or (b) encourage immoderate consumption of alcohol.

Looking more closely at the different options, (A) - (C), option (A) would not entail a significant loss of revenue, even assuming no change in consumption. It should also help to redress any imbalance in the system against higher-end products and so help to counter the "trading down" effect, referred to in the consultation document. It should not be problematic to administer as it is based largely on the existing ad valorem system.

As noted in the consultation document, option B would be regressive and other jurisdictions that adopt such a system also have a goods and services tax (GST) or sales tax, which re-introduces an element of progressivity. It would be more appropriate, therefore, to consider introducing this type of approach in Hong Kong, if at all, only if and when it is decided to introduce a GST here. Additionally, option B could create an imbalance against lower–end products, which would, for example, tend to make wine less affordable to the ordinary person and to be seen as more of a luxury product, available only to a select group. There seems to be no policy reason for doing this and it would appear to us to be an undesirable outcome.

The drop in revenue under option (C), assuming no change in consumption, would be significant. However, from another perspective, as this option would do away with, or narrow substantially, the duty differential between products with a higher alcohol content and those with a lower alcohol content, it might be seen as encouraging an increased consumption of alcohol, together with its potential consequences in terms of alcohol abuse and health costs. Therefore, we would not favour this option.

In conclusion, while the Institute sees no overwhelming reason to change the existing duty system and rates, of the other options discussed in the consultation document, option (A) would seem offer some advantages and little downside. For the reasons explained above, we would not favour either option (B) or option (C).

If you have any questions in relation to his submission, please do not hesitate to contact me at peter@hkicpa.org.hk or on 2287 7084.

Yours faithfully,

Peter Tisman

PETER TISMAN
TECHNICAL DIRECTOR
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