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Hong Kong Duties on Distilled Spirits

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Approved By:

Erich Kuss

Prepared By:

Caroline Yuen

Report Highlights:

Members of the Hong Kong liquor industry have been calling on the Hong Kong government to change the tax system on distilled spirits from the existing ad valorem basis to a combination of ad valorem and specific duty. The proposal would bring a reduction on duty paid by premium liquors while having limited impact on more economical liquors like rice spirits. Despite all the lobbying, the Hong Kong government did not propose any tax reform on liquors in its latest budget announcement. The HKG maintains that any proposal should avoid regressive elements and be fair to all alcoholic drinks regardless of price.

Summary

Subsequent to the abolition of wine duty in 2008, there are now calls on the Hong Kong government (HKG) to lower the duty on distilled spirits by changing the current duty system. Presently, liquors with more than 30 percent alcohol are charged with a 100 percent ad valorem tax. The recommendation of some industry representatives is to implement a combination system in Hong Kong by which strong liquors are taxed either at a 100 percent ad valorem duty or a HK\$100 (US\$12.85) specific duty per liter of pure alcohol whichever is lower. The trade estimates the proposal would bring a reduction of HK\$80 million (US\$10.3 million) in duty out of the current total of HK\$290 million (US\$37.3 million) of the government's tax revenue from liquor. However, the HKG declined the proposal on the grounds that the current system is simpler and fairer and is in line with the "ability to pay" principle.

Current System

Hong Kong imposes 100 percent ad valorem excise duty on liquors with an alcoholic strength of more than 30 percent by volume measured at a temperature of 20 degree Celsius. In 2010, tax receipts on these liquors amounted to HKD290.68 million or US\$37.36 million.

The Proposed System

Some members of the industry have proposed a combination system for the excise duty levied on liquors with over 30 percent alcoholic content. Under this proposal, the current 100 percent ad valorem rate would continue to apply to the dutiable value (based on ex cellar price) until it is equal to an effective rate of HK\$100 (US\$12.85) per liter of pure alcohol. From that point on a HK\$100 per liter pure alcohol specific tax would be applied. The rationale behind this proposal is that economical liquors such as rice spirits which are widely used in daily cooking would not be entirely subject to the specific tax which is based on quantity. It will continue to fall under the current 100 percent ad valorem system, without being impacted by the proposal. On the other hand, the proposal will allow expensive liquors not be entirely subject to the ad valorem tax which is based on value. The specific duty element of the proposal will reduce the excise duty which otherwise be levied on premium liquors. In simple terms, the tax proposal could be interpreted as a 100 percent ad valorem tax or a HK\$100 (US\$10.3) specific tax per liter of pure alcohol whichever is lower.

The industry argues that the proposal would not affect government's revenue significantly. It would reduce about HK\$80 million (US\$10.3 million) out of the total HK\$290 million (US\$37.3 million) government's tax revenue on liquor but the positive impact on trade would be tremendous, given the example of the elimination of excise duty on wine. The trade also promises to pass on the savings on tax to consumers.

Government Position

Despite all the lobbying, the Hong Kong government did not propose any reform on the tax system for distilled spirits in the latest financial budget. They explained that the current tax format is fair and simple. It does not have the regressive effect of the specific tax system which means the duty on more

expensive alcoholic products would represent a lower percentage of total cost as compared to lower-cost products. Also, the current system is in line with the “ability to pay” principle. The Hong Kong government emphasized that any reform to the current system should avoid any regressive effects and other possible unfair situations between different price range products.

Given the positive trade effect brought by the elimination of wine duty in 2008, the distilled spirits industry is expected to continue to pursue further tax reform that will effectively lower the duty paid on their products.

Statistics

Table 1. Hong Kong: Imports of Liquors

Hong Kong Import from World (Transport Mode: All Modes) Via Country of Origin: All Countries of Origin						
Commodity: spirits						
Calendar Year: 2006 - 2010, Year To Date: 04/2010 & 04/2011						
United States Dollars						
Partner Country				Year To Date		
	2008	2009	2010	Apr-10	Apr-11	%Δ 11/10
Total	311,637,838	292,470,549	391,662,383	121,649,156	130,960,482	7.65
France	158,449,351	179,228,689	248,812,235	76,123,333	69,516,196	-8.68
China	84,311,883	60,740,358	84,364,328	26,300,110	41,483,810	57.73
U.K.	46,696,728	35,045,168	41,847,852	13,760,930	14,488,232	5.29
United States	8,425,072	4,738,245	3,234,575	870,981	1,102,873	26.62
Mexico	1,392,562	1,357,570	2,392,392	1,103,959	643,167	41.74

Source : GTI - Hong Kong Census and Statistics Department