Press release

LCQ15: Impact of the abolition of estate duty and duty on alcoholic beverages

Wednesday, December 15, 2010

Following is a question by the Hon Emily Lau and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 15):

Question:

In order to attract capital from overseas and fortify Hong Kong's position as Asia's asset management centre and a global financial centre, the Hong Kong SAR abolished estate duty in February 2006, and the Government estimated at the time that about $1.5 billion tax revenue per annum would be foregone as a result. In addition, in order to promote the wine trade and develop local catering industry, tourism as well as the wholesale and retail alcoholic beverage trade, the Hong Kong SAR abolished the duty on wine and that on liquor with an alcoholic strength of not more than 30% in February 2008, and the Government estimated at the time that the revenue foregone would amount to about $560 million per annum. In this connection, will the Executive Authorities inform this Council:

(a) whether the forecasts of the Government in those years on the reduction in tax revenue are accurate; whether it knows the growth in Gross Domestic Product (in both percentage and dollar terms) as a result of the abolition of the two aforesaid duties, as well as the economic and other benefits it brought every year;

(b) whether it knows if Hong Kong's asset management business has grown since the abolition of estate duty, the number of jobs created by the business and other benefits it has brought to the SAR; and

(c) whether it knows the number of jobs created in the catering industry, tourism as well as the wholesale and retail alcoholic beverage trade as a result of the abolition of the duty on wine and that on liquor with an alcoholic strength of not more than 30%, and other benefits it has brought?

Reply:

President,

My answers to parts (a) to (c) of the question are set out below -

The Financial Secretary proposed to abolish estate duty in the 2005-06 Budget and to exempt duties on wine and liquor with an alcoholic strength of not more than 30% in the 2008-09 Budget. As the items are no longer subject to tax, we do not have information on the actual tax revenue forgone after the abolition of the duties for comparison with the estimates in those years.

As regards the amount of investments brought to Hong Kong by the abolition of estate duty, especially those in asset management business, since investment decisions are often influenced by many factors, it is difficult to give an accurate assessment on the additional amount of investment induced solely by the abolition of estate duty. Nevertheless, the financial industry generally agrees that the abolition of estate duty has generated positive impact and is conducive to the long-term development of the asset management business and the financial sector as a whole. Our asset management business and investment environment have also become even more attractive and competitive following the abolition of the tax. With the abolition of estate duty and the support of government policies, coupled with the continued promising economic outlook and improving business environment, Hong Kong has become increasingly attractive to local, Mainland and overseas investors.

On asset management business, there was a 36% growth in Hong Kong's combined fund management business, from $4,526 billion in 2005 to $6,154 billion in 2006 (i.e. the year in which estate duty was abolished). In subsequent years, we saw continuous expansion in asset management business, both in size and growth rate, save for 2008 due to the impact of the global financial tsunami. Consolidated statistics are set out in the Annex.

The number of staff involved in the fund management business jumped from about 16,100 in 2005 to about 27,700 in 2009.

For wine business, riding on growing demand for wine across Asia (particularly the Mainland), the industry has responded positively since the wine duty exemption in February 2008. There has been much business growth. Total wine imports into Hong Kong amounted to about $3.2 billion and $4.6 billion in 2008-09 and 2009-10 respectively, representing a year-on-year growth of 80% and 45%. Another growth of 64% was registered in the first seven months of 2010-11.

The growth in wine business has brought direct economic benefits to wine trading, distribution, auctions as well as other related economic activities such as catering services, tourism, brand promotion and exhibitions, wine appreciation and related educational activities. Nevertheless, wine duty exemption is only one of the many contributory factors affecting the development of the wine-related economic activities. Companies' profitability is also affected by other factors, including their cost-effectiveness, management efficiency and market competitiveness. Likewise, cyclical changes in the domestic and global markets also affect Hong Kong's external trade performance. It is thus very difficult to isolate the direct impact of wine duty exemption on the Hong Kong economy from all these effects.

To better gauge the benefits of the further development of wine-related business in Hong Kong, the Commerce and Economic Development Bureau carried out a survey in mid-2010. The survey indicates that -

(a) in 2008 and 2009, there was an increase of about 850 wine-related companies in Hong Kong (such as wine trading, distribution, retailing, storage, restaurants, bars, hotels and logistics companies), bringing the total to 3,550;

(b) companies received $5.5 billion wine-related business receipts in 2009, representing an increase of over 30% as compared with $4.1 billion in 2007; and

(c) in 2008 and 2009, the number of persons engaged in wine-related business increased by more than 5,000, bringing the total to nearly 40,000 by end 2009. The number of job increase is equivalent to about 1,000 full-time jobs.

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