

CHAPTER 8 OPTIONS FOR RETURNING THE FUNDS FROM GST TO THE PUBLIC

Clear commitment not to generate additional revenue

194. The magnitude and the exact combination of the tax relief and compensation measures to be introduced would ultimately depend on the GST rate, the mix and value of measures that the public preferred, and our fiscal circumstances at the time of GST implementation. However, the Government has a clear commitment that the proposed tax reform would not aim to generate additional revenue, at least for the first five years after GST introduction, as the key objective for the reform would be to broaden the tax base.

195. For the first five years following the introduction of a GST, all revenue so generated, after government administrative costs relating to its collection had been met, would be returned to the community as tax relief or compensation or other measures.

Financial projection

196. For the purposes of this consultation exercise, we have assumed that GST would be set at a rate of 5%. From our studies, we have found that each percentage point of a GST rate would generate approximately \$6 billion in revenue a year. After the consequential adjustments in existing indirect taxes and the administrative costs are taken into account, the estimated revenue available for tax relief and compensation measures would be approximately \$28 billion a year. Table 13 shows the calculations to derive this figure.

197. In this Chapter, we have used figures based on 2006-07 estimated revenue and expenditure for illustrative purposes.

Table 13 Overview of budgetary implications

	Annual amount (\$billion)
Gross GST revenue (at 5% GST rate)	30.0
Less Hotel Accommodation Tax abolished ⁵¹	(0.3)
Less Motor Vehicle First Registration Tax rates adjusted down ⁵²	(0.5)
Less Duty on Liquor, Petrol, Diesel, Aircraft Fuel & Methyl Alcohol rates adjusted down ⁵³	(0.8)
Net GST revenue	28.4
Less Administrative costs ⁵⁴	(0.5)
Net GST revenue after administrative costs available for tax relief or compensation measures	27.9

Proposed compensation measures for households and business

198. In the preceding paragraphs, we have set out a number of compensation measures that would be made available to households, business and not-for-profit organisations together with the introduction of GST.

⁵¹ Abolition of Hotel Accommodation Tax would cost approximately \$0.3 billion a year.

⁵² Adjustment to Motor Vehicle First Registration Tax would cost approximately \$0.5 billion a year.

⁵³ Adjustment to duty on Liquor, Petrol, Diesel, Aircraft Fuel and Methyl Alcohol would cost approximately \$0.8 billion a year.

⁵⁴ International experience indicates that the ongoing administrative cost for the Government to collect GST would be approximately 1% to 2% of the net GST revenue, but would be expected to be closer to 2% in the initial years due to the need to set up and operate new systems, especially given Hong Kong's lack of the necessary infrastructure to collect GST.

199. The financial implications of the proposed household compensation package, excluding any personal tax relief, are shown in Table 14. The costs of the specific business and charities measures, excluding any Profits Tax reduction, are summarised in Table 15.

Table 14 Details of proposed household compensation measures

Proposed household compensation package	Annual cost (\$billion)	Group to benefit
Upfront supplement per CSSA household	0.8	1
\$2,000 GST allowance per low income household	0.8	2
\$500 GST credit per household against water and sewage charges	0.8	2 & 3
\$3,000 GST credit per household against Rates	4.8	2 & 3
Total	7.2	

Table 15 Details of proposed specific business and charities offset measures

Proposed specific offset measures for business and not-for-profit organisations	Annual cost (\$billion)	First year extra cost (\$billion)	Group to benefit
Capital Fee abolished	0*	0	Incorporated businesses
Charitable donations limits lifted to say 50% of assessable income/profits	0.1	0	Charities
Trade Declaration Charges for imports and exports cut by say 25%	0.2	0	Import and export trades
Special set-up assistance for voluntary registrants	0	0.2	Small and medium-sized businesses and not-for-profit organisations
Total	0.3	0.2	

*Estimated cost of abolishing Capital Fee would be about \$30 million a year.

Remaining funds available

200. As shown in Table 16, it is estimated that approximately \$20 billion would remain after all administrative costs and the costs of providing the proposed household, business and charities compensation measures had been met. There would be many options available to return the remaining balance of funds to the community. We welcome your views on the preferred combination and how to allocate the funds available to the different items within the preferred combination.

Table 16 Balance of funds available for tax relief

	Annual amount (\$billion)
Net GST revenue after administrative costs	27.9
Less Proposed household compensation package (excluding tax relief measures)	(7.2)
Less Proposed business and charities offset measures (excluding tax relief measures)	(0.3)
Remaining balance	20.4⁵⁵

Available options

201. The following examples illustrate what the likely scenarios would be were the total sum of the remaining balance used to reduce either personal income taxes or Profits Tax. Many other options, based on a combination of both, would also be available. These examples are nevertheless hypothetical and are drawn up for your reference only, so as to facilitate discussion during the consultation exercise.

Option 1 : Reduction in Salaries Tax only

202. We could reduce Salaries Tax by lowering the tax rates or widening the bandwidths, or both. Were we to devote the full remaining amount of some \$20 billion to the reduction of Salaries Tax, one possible scenario is as set out in Table 17:

⁵⁵ Taking first year extra cost of \$0.2 billion into account, the balance for that year would be \$20.2 billion.

Table 17 Lowering Salaries Tax rates and widening bandwidths

2006/07		Possible adjustment	
1st \$30,000 income	2%	1st \$75,000 income	1%
Next \$30,000 income	7%	Next \$75,000 income	2%
Next \$30,000 income	13%	Next \$75,000 income	8%
Remainder	19%	Remainder	14%
Standard Rate	16%	Standard Rate	11%

203. It should be noted that in 2005/06 the Government collected total revenue of approximately \$37.5 billion from Salaries Tax. Relief of some \$20 billion from Salaries Tax would effectively mean that the Government could return slightly more than 50% of this income to salaries taxpayers, thus significantly relieving their tax burden.

Option 2 : Reduction in Profits Tax only

204. If we were to choose this option, we could effectively reduce the Profits Tax rates by five percentage points, as a reduction in one percentage point of Profits Tax would cost \$4 billion in 2006/07 terms.

Alternative option : Increase public expenditure

205. As an alternative to using some, or all, of the available funds for tax relief, we could increase public expenditure in important areas. For example, we could increase spending on education, health, social welfare, law and order or infrastructure, so as to enhance public services to the community. As a reference, Appendix D shows the Government’s expenditure patterns in different policy areas over the past 10 years.

Question

✧ What are your suggestions on how to return the remaining balance of available funds to the community?