

Broadening the Tax Base
Ensuring our Future Prosperity

Wholesale and Retail



Consultation Document Leaflet

July 2006

Financial Services and the Treasury Bureau
The Government of the Hong Kong Special Administrative Region

This leaflet is specifically provided for reference by the wholesale and retail sector and is designed to supplement the information outlined in the Consultation Document.

General

1 How would the proposed Goods and Services Tax (GST) apply to the wholesale and retail sector?

We propose that Hong Kong should make reference to the approach generally adopted by other economies which have a GST, that is for goods or services sold by registered businesses, whether they are wholesalers or retailers, to be subject to GST.

Where the purchaser is also a registered business (e.g. a retailer purchasing from a registered wholesaler), it would be entitled to reclaim the GST paid in its GST return for the period in which the purchase occurred and would not need to wait until the sale of the goods in question.

2 What impact would GST have on the wholesale and retail sector?

Based on our assessment, the imposition of GST could have moderate short-term effects in changing the pattern of consumer spending, particularly during the initial stages. Based on overseas experience, consumers might bring forward some discretionary purchases of goods and services that could be expected to increase in price. Thus, in the short term, after an initial increase in spending immediately prior to GST commencement, there could be a drop in private consumption demand as a result of perceived and

actual price changes resulting from GST introduction. However, the impact on the overall level of consumer spending would likely be small.

3 How would GST affect prices?

While prices in Hong Kong are set by competitive market forces, the imposition of GST would be expected to push up the retail prices of most expenditure items. Assuming a GST rate of 5%, our modelling reveals that the Composite Consumer Price Index (CCPI) would be expected to rise by only around 3% immediately after GST introduction. However, it would be a one-off increase and be expected to dissipate quickly.

Registered businesses could be expected to increase prices, but only to the extent of the GST rate. Unregistered businesses could not charge GST on their sales. However, they would incur GST if they purchased inputs from registered suppliers. Such businesses might or might not increase their prices. If they did, a mild increase of less than the GST rate could be expected.

Nevertheless, the movement of prices in response to the introduction of GST would largely be a function of market conditions, the level of competition and the pricing and positioning strategy of various market participants.

For businesses

4 Would all shops be registered? If not, how would people know whether suppliers of goods or services were GST-registered or not?

Only those businesses with an annual turnover of \$5 million or above would have to register. Businesses with annual turnover below \$5 million could decide whether or not to register.

Registered businesses would be required to display certain identification at their business premises. Details would be worked out if the proposed GST were implemented.

5 Would the prices displayed in shops be GST-inclusive?

It is proposed that all prices be GST-inclusive. That means the quoted, advertised or printed prices to be paid would include GST. This would avoid confusion for consumers.

6 Would a sample provided to customers be subject to GST?

If the samples were given to customers free of charge, no GST would be payable.

For individuals

7 If a person purchased intangible goods, for example downloading a song, via the internet, would GST be chargeable?

If the intangible goods were purchased from a GST-registered supplier in Hong Kong, the goods would be subject to GST. Where the supplier was overseas, no GST would be payable.

8 Could tourists obtain a refund of GST for their purchases in Hong Kong?

Yes. A Tourist Refund Scheme would be provided to allow visitors to obtain a refund of GST on goods they had purchased in, and taken out of, Hong Kong.

For further details, please refer to the Tourism and Hospitality Sector leaflet.

Additional Information Available

An electronic copy of this leaflet, the Consultation Document, as well as other relevant reports and leaflets are available at the website

www.taxreform.gov.hk

Further information will be posted on to this website when appropriate.

Additional Leaflets

- Tax Reform and Households
- Small Business
- Import/Export Trade and Logistics Sector
- Financial Services Sector
- Property Sector
- Tourism and Hospitality Sector