

20 July 2006

Dear Mr Chief Executive

I am a fresh business graduate with first class honours from HKUST this year and I am writing to express some concerns about the future of Hong Kong, especially regarding the recent commencement of the consultation period of GST policy. I have written to the tax reform department but there are more important things that I am worried about.

The Financial Secretary has stressed that an open and rational discussion is encouraged upon the issue of GST and he would appreciate that this issue can enhance civic education among the citizens. I agree that this is very much appreciated indeed but how he responded to the opinion of the public didn't exactly reinforce what he said. He said in a press conference today (20 July) that 'the political parties and the business sector are against the GST policy because they have some misunderstanding/misconceptions about it'. Along side he has made other statements of similar nature implying: upon better explanation and more examples given, the public is sure to support GST. I believe that the Legco members and businessmen in Hong Kong are highly educated people and many of them have formed their opinions after gathering sufficient information about the potential GST. It is therefore rather condescending to assume that they have made their decision upon misunderstanding/misconception and whether his attitude to discussion is as open as he said is highly questionable.

Furthermore, the relief measures proposed are very obviously insufficient to cover the impact GST has on poor families. A lot of media channels have done the simple calculation already. And the proposal claimed that the income tax and profit tax can be lowered by a certain percentage point with the proceeds from GST. But that is under the scenario of spending ALL the proceeds on *either* income tax *or* profit tax and nothing else, which is very unlikely. The proposal stated it in a way that is highly misleading to the public. Furthermore, exemptions are granted to business registration and driving license application services but not to public hospital services and schooling. The rationale behind such selection of exemptions are very puzzling yet goes unexplained. (Or the reasons used to explain are contradictory in themselves) All these lead me to believe that the government in introducing this GST policy has not put in enough consideration and I see little sincerity in it.

As a fresh graduate, I have applied for the post of Administrative Officer of the SAR government and got as far as the panel interview. I have a passion for the affairs in Hong Kong and I appreciate how hard it is to balance all views and arrive at the best policy for the good of Hong Kong. I truly believe that the government conceive of the idea of GST entirely based on the long term benefit and stability of Hong Kong economy. However, what we need most is a government who will listen to the public humbly with an open mind and sincere attitude. What I am afraid most, according to what I have observed in the Financial Secretary, is that the GST will be introduced in misled beliefs and against the will of the majority of the public.

Thank you for your valuable time and I would greatly appreciate it if you could kindly write me a few words on the matter. Attached please find my arguments against the GST proposal made by the Financial Secretary for your review.

Yours sincerely

(Signed)

(Name provided)

Attachment

Arguments against the proposal of GST

1. One important aim of GST is to have a reform of the structure of the tax system to introduce a more stable income stream and less reliance on selling land to generate revenue. However there are certainly other ways to go about it which are, may not be as effective as the GST but nonetheless have less adverse impact on the general public. For example, I cannot understand the rationale of not long after abolishing estate duty, which tax the more affluent population only, then GST is introduced. Better planning and saving up during economic good years can also relieve the restraint on budget due to less tax income during bad years.

2. In economic lectures, the evils of GST are very simple and explicitly stated in theory, and most of them are true in practice as well. High cost of administration and reduction in both production and consumption (and hence also the GDP) are among the most obvious ones. Since GST is a regressive tax, which taxes poor people for a larger part of their income while richer people for a smaller part of their income (and what the Financial Secretary said was contradictory to the theory stated in all economic textbooks secondary five students are using). It is obvious that the income gap, which is already worsening in Hong Kong, will be further worsened. Naturally, social unrest, higher crime rates will follow.

3. The selection of exemption items are unaccounted for. Transaction of real estate properties, business registration and driver license are untaxed but hospital services and schooling are taxed instead. Such discrimination would further widen the income gap as essentials are taxed but not the services which only more affluent people would use.

4. How the revenue generated should be used is another controversial topic. The proposed reduction in income or profit tax will only benefit people who are currently in the tax net i.e. not the poor families. And the waiving of water supply charges and property rates and rents have little impact on small and relatively poor households because the savings are proportional to their household size. \$2000 relief compensation to each household receiving CSSA is definitely not enough to cover the GST on the necessities they would need in one year. Countries with high tax rates have a more comprehensive social welfare system and they take good care of the less affluent portion of the citizens. If the SAR government wants to introduce GST, it has to bear much more responsibility of the needs of the disadvantaged groups instead of what it is proposing. Pardon my language, the current proposal is but an insult to

those people.

In summary, I am against the GST on the grounds of 1. it imposes heavy costs of administration and reduction of production/consumption on the society and everybody loses (except perhaps the accountants) and 2. the income gap will be drastically widened further as the low income household are discriminated in a lot of ways in the policy.