



06/12/2006 12:49

 Urgent Return Receipt

To: taxreform@fstb.gov.hk
cc:
Subject: In lieu of GST

Dear Mr. Tang,

First off, let me commend you on your decision to put your proposed GST to bed. It takes an awful lot of courage to back down on an issue you so strongly believe in, and have advocated so hard over the last few months. Your decision to continue with the tax reform consultation also goes to show your genuine concern to seek alternatives to broaden our tax base.

Although I have not done any thorough investigation or study, I would still like to offer my humble opinion on a few potential sources of tax for your kind consideration. These are based primarily on fairness, affordability, and minimal impact on our economy.

Investment tax - Off hand, this may sound like a taboo. But if you consider the vast amount of funds being injected into our economy from all over the world, I don't believe a carefully designed and packaged nominal tax will be much of a deterrent for investors. Nor will it alter their confidence in our economy.

Speculation tax - There has been tremendous speculation in both the real estate and securities markets lately. Neither is healthy for our long term growth. What better way to cap those activities than to slap a speculation tax on short term gains? If carefully designed, it will bring about stability and confidence to long term investors.

Windfall profit tax - Along the same idea as speculation tax, this applies to any windfall gain including but not limited to benefitting from lotteries and estates. Indeed, I believe it was a grave mistake for the government to abandon estate tax. Instead, we can consider exempting certain assets (such as primary residence, personal effects, sentimental artifacts, etc.) and raising the threshold of exemption.

In addition to the above, I would like to propose two other initiatives regarding our current tax system.

Our rigid import tax and duty structure on certain commodities has often resulted in grave hardship on certain sectors of our economy. On commodities with highly volatile prices (such as oil and gas), I recommend the government to establish a "nominal market price". The tax and duty levied will then be adjusted somewhat inversely proportional to the nominal market price. i.e. when the current market price escalates well above the nominal price, the tax rate will be adjusted downward, and vice versa. This balancing act will not only result in a welcomed relief to an already ailing economy, the government will also be able to shield itself from wildly fluctuating prices.

Last but not least, we need to do our utmost to plug off as many loopholes in our current tax system as possible. It is a well known secret that many businesses (including the underground economy) do not pay their fair share of tax. It's about time our government starts to enforce

its legislation to ensure we all pay our fair share, not by GST, but by tackling all revenue at the source.

Yours truly,

Eric To