

**Opening Speech of FS at the
HKICPA Forum on Options for Broadening the Tax Base
(11 December 2006)**

Mr [Paul] Chan, Dr [Stella] Cho, Mr [David]
Southwood, Ladies and Gentlemen,

Good evening. I am delighted to be here to take part in discussion on options to broaden our tax base with members of one of the most respected professional organizations in Hong Kong.

2. First of all, I would like to thank the HKICPA for your active participation in the public consultation on tax reform. I am particularly grateful to Paul for the invaluable support and professional advice that you have rendered us during the first half of the public consultation. They have certainly helped the public understand better the weaknesses of our current public finance system and the need for change.

3. Since the launch of the public consultation, the Government has been actively engaging the public to discuss the important issue of long-term sustainability of our public finance system. My colleagues and I have so far attended over 260 meetings and seminars to discuss with the public the challenges faced by our public finance system, and to listen carefully to views on how our tax base can be broadened. To take stock of the views collected so far, we have prepared an interim report which was released last Tuesday. We also set out in the report the focus of the public consultation in the remaining few months.

4. The interim report has been uploaded to the dedicated website of our public consultation on tax reform. So I do not intend to go through it in detail this evening. I would just like to share with you some of its main observations.

5. From the views collected, it is clear that the majority of the public agree that our tax base is narrow as we have been overly reliant on a few direct tax items and a considerable portion of our tax and non-tax revenues are related to the property market or investment. Many agree that this is not healthy and that the Government should continue to explore options to broaden our tax base so as to enhance our fiscal health and competitiveness.

6. While most people agree that there is a need to broaden our tax base, the majority of them do not consider that the Goods and Services Tax (GST) is the right answer. Many of them are strongly against GST and consider that Government should study other options. They hope that the Government will continue to explore other options and discuss with them before deciding on how the tax base should be broadened.

7. In view of the clear views expressed, we accept that at this time there is insufficient public support nor are the conditions right for introducing GST. So, for the remaining part of the consultation, we will not be advocating GST. We will instead be focusing on discussing with the public other viable options for broadening the tax base.

8. In considering other options, we will take into account various factors, including:

- Our tax system should be fair and comply with the “ability to pay” principle and should not widen the gap between the rich and the poor;
- It should maintain our simple and low-rate tax system and our competitiveness; and

- Our tax system should be effective in generating stable streams of public revenues to cope with future challenges.

9. We hope that upon the conclusion of the consultation in March next year, we can draw up a report for consideration by the Government of the next term.

10. With over 25 000 members, the HKICPA certainly has a pivotal role to play in the discussion on how our tax base should be broadened. I am sure your members have the professional knowledge and experience to offer us invaluable advice on what other options we should explore for broadening our tax base and ensuring our future prosperity. I am looking forward to your continued support and active participation.

11. Thank you very much.