

Let's stop beating about the bush

Hands up all those who like paying tax?

I'd guess not too many people would put their hands up to that question. Nobody enjoys paying tax. Given a choice, people would rather keep their hard-earned cash, to spend or save as they please. That's an entirely understandable human reaction.

Similarly, the idea that a government is considering a new tax will inevitably, and quickly, lead to a concerted public campaign to stop the proposal in its tracks. That's because the initial, negative response is driven from an emotional level. "It's something new. We don't like it. We don't want it." That, too, is an entirely understandable human reaction.

This is the consultation that the Government is now engaging the public with on the notion of broadening the tax base, including the need for introducing the GST. Let me make it quite clear that we have no intention of curtailing and dropping our nine-month consultation. Frankly, we think this would be an irresponsible act by the government, as well as by community leaders, including some legislators who would rather bury their heads in the sand without attempting to take part in a sensible debate on the matter.

The crux of the problem is whether our current tax system can sustain our long-term development needs. We feel that our current tax system cannot do that.

In looking to the future, we should bear in mind our experience in the recent past if we feel that our tax system is fine. The Asian financial crisis caused severe pain and major adjustment in our economy. And, it exposed the flaws in our tax system – an over-reliance on property-related revenues and an over-reliance on a small band of salaries tax and profits tax payers.

A consequence of that downturn was a very real and marked reduction in government revenues, which meant we had to cut back on spending. Another consequence of that downturn was the fact that we had to draw on our fiscal reserves to pay for the day-to-day running of the government and the services provided to the community.

The Hon James Tien suggested that one reason we don't need a GST is because we can continue to draw on our 'huge' fiscal reserves and the Exchange Fund (standing at \$1,105 billion as at 30 June 2006) in the future. This conveniently ignores the fact that 26 per cent of the Exchange Fund assets underpins our monetary base and the stability of our exchange rate

against the US dollar. I'm flabbergasted to think that the idea of simply raiding the Exchange Fund – in turn jeopardising the stability of our currency – has even been put forward as a viable and responsible way to deal with any future economic downturn.

Another problem with such an approach is that it does not address the root cause of the fiscal challenge we face. Using reserves to top up a deficit doesn't help to solve the problem of why we have a deficit in the first place. It can relieve the pain for a while, but the underlying illness will remain. It's the same as asking a doctor to prescribe medicine to alleviate the symptoms, while refusing to accept the reality that there is a sickness causing the problems. Mr Tien refuses to accept the reality that our fiscal system is in need of help.

In launching our tax consultations we spelt out clearly the challenges that Hong Kong faces in the future, and why we need to broaden our tax base to deal with those challenges. It is better to look at them now while our economic situation is stable and positive, rather than wait for the next financial crisis to give us another painful jolt.

We feel that a GST is the best option to broaden our tax base to meet the community's future fiscal needs. However, we are more than willing to listen to other feasible ways of meeting these needs. Legislators, in particular, can and should be a vital element of this consultation process.

Six weeks into the consultation it is now time to put the slogans and rhetoric to one side to discuss the substance of the government's proposals. But please, let's have a calm and rational debate based on facts and figures, rather than one fuelled by fallacy and fear mongering.

Henry Tang
Financial Secretary