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To: <taxreform@fstb.gov.hk>
cc:
Subject: GST Consultation

I am a middle class taxpayer as defined by the HKSAR. I have to work extremely hard and long hours to earn my income. Each year I have to pay tax to the government which is equivalent to more than one month of my total family income. In the past I had been involuntarily unemployed for some time, but received no benefits or helps at all from the government. On the other hand I cannot afford the time and money to have holidays aboard 9 times a year and I cannot even afford to cross the border to Guangdong Provinces several times a month. I am not saying to cut or reduce the CSSA payments to those actually in need, for example, the elderly but that should be reduced for the youngsters who should be in the workforce. If these people cannot find a job, the government should consider making them do voluntary jobs for, say 30 hours a week at least to have some contribution to the Society. In addition, billions of dollars are not spent properly by some of the government departments each year as disclosed by the Audit Commission. Before introducing such a tax, efficient use of the taxpayers' money must first be considered and asserted.

I have read the GST consultation document. I agree to broaden our tax base but I am bitterly against the introduction and implementation of such a controversial GST. I prefer to reduce the personal allowance but simultaneously reducing the progressive and standard tax rates in order to broaden the tax base.

Increasing rates for existing would not broaden the tax base

This can be done by reducing the personal allowances significantly so more workforce pay tax on their earnings. At the same time of reducing the personal allowance, the government can reduce the progressive and standard tax rate so the existing high salaries taxpayers would not have to pay extra tax. This would draw wage earners currently paying no Salaries Tax into the tax net but would not generate additional tax to the current middle class taxpayers who already bear most of the Salaries Tax. For sure the administrative resources required to deal with the increased number of taxpayers would be far less than those to implement the GST. In addition, the reduction of personal allowance can be introduced from next financial year rather than have to wait for few years.

Increasing tax rates against international trend

We do not have to follow exactly the international trend as recently the Chief Executive's visit to Singapore tells us that we have to consider each case individually and we cannot just move Singapore's system across to Hong Kong. The international trend is to provide unemployment benefit to involuntary unemployed people and also set a time limit for getting unemployment benefits for healthy people. Are we following this trend?

Increasing property-related taxes would decrease competitiveness

Introduction of GST would even decrease competitiveness further than increasing property-related tax. Tourism industry would be hit hard. Retail, food and beverage industries will also suffer badly. Then there will be less profits tax, more workers are laid-off and this would involve increased government welfare outlays and administrative expenses. The economy will be hurt tremendously. The government should stimulate the economy rather. At the moment, the economy is good partly because we have lots of tourists coming from the mainland China. Hurting the tourism industry means killing the economy. The tourists would choose to visit other places rather than Hong Kong. Imposing GST would have a detrimental impact on Hong Kong's status as a simple tax system and a Shopping Paradise. Also the government spent years of effort to successfully get a token discount on the bus fare recently. The introduction of the GST on public transport really slaps himself on his face.

Options to introduce new taxes

Plastic bags and cross-the-border tax or even the airport tax can be introduced quickly and with less

resistance. I do not think the introduction of \$10 per visit across the border would reduce the number of visitors at all. On the other hand, it can induce people to stay and spend in Hong Kong. The receipt from Profits Tax would increase as a result. In addition, a modest increase of 0.5% on Profits Tax, I believe, would be acceptable to profitable businesses.

Offset Packages

If the CSSA households and the Non-CSSA low-income households receive subsidies on GST, it is the middle class who bear most of the tax eventually. The tax base would not be broadened. Furthermore, how much is the Salaries Tax going to be reduced? Based on past experience, the Financial Secretary promised to think about reducing Salaries Tax significantly if the HKSAR won the legal case on civil servant pay reduction and saved \$10 billion. However, every year he would use excuses like rising oil prices, fluctuating world economy, and interest rate risk, etc to try and avoid tax reduction or rebate. At the end of the day if GST generated is not enough as expected, the middle class would suffer again by not getting enough Salaries and other tax reduction. The middle class has lost confidence in the Financial Secretary in reducing tax to help them already. In addition, these offset packages would incur huge administrative costs.

Conclusions

The disadvantages of GST certainly outweigh the advantages. GST would not be a low and simple tax. 5% GST is not a low tax. However simple GST system is, it would be far more complicated than the current tax system. Ageing population do not pay Salaries Tax. Do you believe they can afford the GST or most of them are within the target offset package group?

- (a) GST does not necessarily produce stable and predictable revenue as consumption would also be seriously reduced in times of recession, like in SARS time few years ago;
- (b) It would not be broad based and very fair as the offset packages mean it is also the middle class to pay the bulk of the tax to the government;
- (c) It would have a detrimental effect on Hong Kong's competitiveness as people would spend less locally, fewer tourists would visit Hong Kong and more Hong Kong residents would go to spend in Shenzhen which is a lot cheaper there.

Middle class do not need a robust and stable tax base but only want the government to create a good and stable business environment to attract foreign investment and to spend the tax revenue in an efficient manner. The government should spend more time and efforts to contain the air pollution problem than to introduce GST.

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