



To: <taxreform@fstb.gov.hk>

cc:

Subject: feedback on the government propose introduction of sales tax.

2006/07/18 10:31 PM

Urgent

Return Receipt

Dear Sir,

I would like to express my opinion on the government propose introduction of sales tax.

I strongly object to this idea. There are different reasons.

Firstly, sales tax will severely change the simple tax structure of HK, one of the advantage and reason of HK's success.

Secondly, introduction of sales tax will inevitably complicate the administration of merchants as well as the government officials. More complicate administration of the merchants means higher cost to doing business in HK, and that is in contrary to why HK has been so successful. More government officials mean there is a higher cost to the tax payers.

Thirdly, the rationale for introducing sales tax is primarily to extend the tax income base. This is apparently true. Sales tax will be paid by all citizens from rich to poor. Looked carefully, the unwealthy group will still need to spend on daily necessities, and such spending will be taxable. The extra expense will represent a much more significant portion of their income. The wealthy classes spending on necessities represents a much smaller, and possibly insignificant portion to their overall income. In most cases, the wealthy class will have such expense covered by a business entity and thus the tax paid, will disappear from the profit of the business entity. Not only this have no effect on 'extending the tax base', it would represent a zero gain in overall tax income for the government. Considerign the various administration cost, the effect of sales tax is very doubtful.

Without doubt, there will be exemptions for the unwealthy class on sales tax. That will defeat the whole purpose of 'extending the tax base'; that also means, the additional tax will comes from the not unwealthy class, and not the wealthy class, i.e. the middle class - those who is not having the most of the tax burden.

The effect of sales tax on the various classes will increase the gap between the rich and the poor, thus creating mor instability on the society.

Forthly, introduction of sales tax will have a negative effect on tourism, one of the main industry of HK. Dispite government can set up process to refund tax to tourists, you can't change the perception and behaviour of the people who think HK is 'expansive'. Also some of the spendings are not refundable - like local-travelling and dining. At the end of the day, HK will lose its attraction for tourist. Not to mention setting up refund process further increase administration cost.

Fifthly, it is contradicting when on one hand the government waived the inheritance tax, but on the other hand tries to introduct sales tax.

In summary, I find the introduction of sales tax not only very doubtful in achieving the original objective - extending the tax base, it also have adverse effect on the business environment of HK, discourage spending, increasing cost of business, turning away tourists. The government objective is to extend the tax base, there should be other means besides of this very bad idea of sales tax. The trend around the world is to lower and simplify tax to simulate business activities and growth, it is counter-intuitive that HK, probably the only the free port in the world, is trying to increase and introduct more tax. I strongly stand against the introduction of sales tax.

with best regards
WONG Fuk Wing Louis