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To: taxreform@fstb.gov.hk

cc:

Subject: GST reform proposals

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 Urgent Return Receipt

I support GST as a fairer tax than the current salaries tax. The following points should be addressed:

<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

1. Employees render services to employers. The services should fall into the regime of GST as S stands for services. Under the GST system, the employer will deduct 5% from the employees' salaries for payment to the government. (The Government should rip this golden opportunity to introduce PAYE – "pay as you earn" system.) The employees when submitting their salaries tax returns will claim for set-off of this 5% tax against their salaries tax liabilities whilst the employer will set off this 5% tax credit against other GST liabilities to the government. From the employees' point of view, their services are subject to GST as well as salaries tax assessment under Inland Revenue Ordinance (IRO). As such, the standard tax rate under IRO should at least be reduced by 5% when GST is introduced. Why at least 5% - this is because the payment of tax is earlier than would be the case in the current system and the salaries tax payers should be compensated for the timing difference. Therefore, if you want a fair deal with the current salaries taxpayers, you should propose a reduction of say 6% from the current standard rate of tax under the IRO.

2. As it is not illegal for small businesses with \$5 million turnover not to pay GST, big enterprises may form small business entities to avoid paying GST when necessary. For competitiveness reason, the forming of small businesses may be considered by the intelligent businessmen in <?xml:namespace prefix = stl ns = "urn:schemas-microsoft-com:office:smarttags" />Hong Kong. If you want to plug this lop hole, you need to introduce the anti-avoidance clauses such as "connected person" in the GST legislation.

3. The current tax system under IRO should be simplified by abolishing Personal Assessment. No ordinarily residents of Hong Kong (see relevant Section in IRO) should need to apply for personal assessment in order to get their personal allowances etc and deduction for mortgage loan interest for their rental income from their landed properties. (Of course, non-resident should pay tax at standard rate.) If you are so proud of the simple tax system in Hong Kong, this proposal has to be considered!

I will write to you again when new ideas crop up in my mind.

Regards

A retired FCPA accountant