



To: taxreform@fstb.gov.hk
cc:
Subject: Feedback on tax reform in Hong Kong

20/07/2006 10:12

- Urgent
 Return Receipt

Dear Mr. Financial Secretary of Hong Kong SAR,

In response to the recent consultation on tax reform in Hong Kong, I would like to provide some of my humble opinions with respect to this very important and sensitive issue of Hong Kong.

First of all, may I introduce my background and this may help you to understand the concerns from similar peer group. My name is Ida Lew, a Hong Kong-born citizen, raised and educated in Hong Kong until Form 6 and was educated in Canada for my bachelor and master degree. I hold a bachelor degree in Acturial Science and a master degree in Economics. I am currently working in Hong Kong as management consultant. This is my first time to respond to government consultation paper, but I believe this is also a time that I need to speak up.

Firstly, from an international perspective. Hong Kong is heavily dependant on tourism industry. It has been very well known as the Shopper's Paradise and "sales tax free" has become a label of Hong Kong internationally. With the introduction of GST, the competitive edge of Hong Kong will disappear rapidly while Hong Kong is still searching and shaping its other competitive edges. With all the efforts of promoting Hong Kong as the Asia's World City by the Tourism Board, it will be very confusing and ironic to our strategic positioning in Asia. GST will weaken tourists' eagerness to visit HK or extend their stay in HK on transit to China. Unless HK Government is able to identify a solid attraction in HK, the introduction of GST will certainly dampen the tourism and hotel industry in HK, which in turn affect our GDP growth in all related aspects.

Secondly, from a local macro-economic view. The economy of HK has just turned around and middle class has started to gain confidence in consumption, which is the key economic driver of HK. The GST will severely affect consumption and this is very risky for HK to implement. Personally, with a rather weak public welfare committment (as well as quality) in Hong Kong, I would not like to pay more tax while I am not getting good quality welfare from my government. I would seriously consider immigrating to countries like Canada, where a good system of public welfare is present eventhough tax rate is higher. I think HK Govt needs to consider the fundamental position of HK whether we want to maintain a free-small open economy or transforming into a public-welfare economy. With my personal assessment, the infrastructure of HK is not sufficient to support a public-welfare economy and the free-small open economy has been working very well in HK since 70s. HK people mentality is to work hard and

fight for their own and the government intervention in the quality of life has been minimal. To be strict, I do not see the government is ready to take up the full responsibility of people's life quality. Simple example, the quality of public hospital in Canada is in the same level of private hospital in HK. So, can our government assure the availability of hospital beds, environment quality, medical professionals' quality have the same standard as in private hospital? So, with the additional GST income, can the government commit to improve the standard dramatically and everyone in HK is sharing a same standard? The government's theme to promote GST is to broaden tax base and let's everyone share, then I think the government should also execute and commit the same welfare level for everyone on the same day it starts to implement GST, i.e. if GST is going to implement 5 years later, the government must start to invest and improve NOW and show the citizen of Hong Kong what we are getting. It will not be possible to ask us to say "yes to GST" unless we experience the commitment and improvement.

Thirdly, from a local micro-economic view. Purchasing power of HK people will severely impact by GST. The government is proposing taxation on almost every daily commodity and people will think twice or third before purchase. Our economic engine will be lost. People in poverty will also seriously affected. Well, in an extreme case, people will plant their own food instead of purchasing. So, manpower will go to just maintaining their daily necessity instead of generating economic or value-added activities. For imported products, the government is also proposing to tax on HK people's shopping from foreign country. This is really not effective and HK people will think of every way to make it like "used" products. So, eventually, our Custom officers will be busy to inspect people who carry new goods, and at the same time, the alert to inspect dangerous drugs or any other illegal items will be weakened.

Last but not least, implementing GST is also another key challenge. However, this is not my key point in my feedback because I do not agree to introduce GST to HK by principle.

Hong Kong has been a very charming city and it has been prosperous even though we have gone through ups and downs. We can still survive well. "Broadening our tax base, ensuring our future prosperity" is NOT our key success factor, but rather this is a major risk to remove our prosperity. The key driver of Hong Kong is HK people's energy and intelligence. We must be bold on our competitive edge and find new edges, but NOT to create risk.

The above is my humble opinion and I really don't want to see my beloved city to sink. Should you wish to contact me for further feedback, you are very welcome to do so.

Regards,
Ida Lew