

22 July 2006

Financial Service and the Treasury Bureau.
4th Floor, Main Wing, Central Government Office,
Lower Albert Road, Central, Hong Kong.

Dear Financial Secretary,

Opinion in Tax Reform issued in July 2006

1. Widening tax base:

Besides Goods and Services Tax (GST), Hong Kong government can impose high import duties in goods other than necessary goods, especially luxury goods. For example, Singapore government currently charges 300% import duties on the import value of "Mercedes Benz" motor vehicle.

2. Control of the government expenditure:

Although Hong Kong government takes some measures to control his expenditure, there are some rooms for further controlling government expenditure

1. Hong Kong government should improve workflow.
2. Hong Kong government should implement "six sigma" system in controlling government expenditure.
3. Hong Kong government should improve the utilization of resources within government department to eliminate waste.
4. Hong Kong government should re-structure government departments. For example, West Germany government had already re-organized government departments after consolidation with East Germany. Consequently, the overall financial position of Germany government has improved.

3. Opinion on GST:

GST should not be imposed because of the following reasons:

1. GST can weaken the competitiveness of Hong Kong economy.
 - (a) After 1997, the status of Hong Kong as an international city gradually diminished. Nowadays, Hong Kong still enjoys a few competitive advantages: Simple taxation system and excellent legal system.
 - (b) If GST is charged, Hong Kong will lose one of the remaining competitive advantages.

2. GST will discourage domestic consumption
 - (a) Hong Kong has high cost of living than the most cities in the Mainland China.
 - (b) If GST is imposed, some Hong Kong citizen will go to Shen Zhen Shi for purchasing necessary goods because of lower price. This will reduce domestic consumption in Hong Kong.

3. GST will accelerate unemployment problem:
 - (a) The most of the enterprises in Hong Kong are small and medium enterprise (SME)
 - (b) Because GST will reduce domestic consumption, the revenue of SME will reduce. Consequently, some SME will close down and unemployment problem in Hong Kong will be accelerated after the implementation of GST.

4. GST will hinder economic development of Hong Kong
 - (a) Because of high land value in Hong Kong, the enterprises in Hong Kong must pay high rent to some property developer and thereby the enterprise operated under the high cost of operation.
 - (b) If GST is imposed, the enterprise in Hong Kong must pay additional cost to handle GST. Consequently, their cost of operation will further increase and the attractiveness of Hong Kong as place of investment will lose.

5. GST itself is not cost effective to implement:
 - (a) Because GST itself is complex, it incurs high administrative charge.
 - (b) Unless the tax rate is high, it cannot recover administrative charge associated with the collection of GST.

4. Conclusion:

1. Goods and Services Tax (GST) should not be implemented.
2. Besides GST, Hong Kong government can take other measures to widen tax base.
3. Before the implementation of new taxation, Hong Kong government should further control government expenditure. Otherwise, it cannot get the support of any citizen.

Yours faithfully.

(Signed)

Leung Kwok On,
Hong Kong citizen