



Chan Chan

To: taxreform@fstb.gov.hk
cc:
Subject: GST system

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 Urgent Return Receipt

Dear Henry,

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

To compensate the salaries taxpayers (t/p) under the GST system, the GST proposals include a reduction of about 5% from the current standard rate in the Inland Revenue Ordinance (IRO). I propose a more simple credit system to replace the reduction of tax rate.

The credit system works like this:

1. The t/p can claim set-off of their GST paid against their salaries tax liability, supported by "personally identified" documentary evidences for GST paid (e.g. vouchers, octopus or credit card payments etc.)
2. The maximum set-off should not exceed the salaries tax liability of the t/p, meaning that t/p cannot claim refund for the excess should GST paid exceeds their salaries tax liability. (Alternatively, if it is considered a full set-off is not considered financially viable, you may restrict the set-off to a certain % of the salaries tax payment.)
3. The onus of proof lies on t/p and t/p have to keep records for 7 years after the transactions so that the Tax Assessor can check the validity of their claim. This is in line with the present IRO's spirit (See Section <?xml:namespace prefix = st1 ns = "urn:schemas-microsoft-com:office:smarttags" />51C of the IRO).

The advantages of this credit system are as follows:

1. It is fairer to t/p since they can claim credit for the GST paid. This would alleviate their feeling of being doubly taxed.
2. The system is easy to implement as little legislative changes are required in IRO.
3. It encourages t/p to spend more and to spend with those business entities registered under GST and therefore boost the economy at large. It would not only silent some of the objections from the "spending" sectors such as restaurant/ retail entitie but also encourage business entities to register under GST.
4. The claim for set-off provides data for double check on whether business entities have remitted correctly the amount of GST collected from their customers to the Revenue.

Regards,

A retired FCPA