



29/07/2006 17:17

 Urgent Return Receipt

To: taxreform@fstb.gov.hk
 cc:
 Subject: Tax Reform (Express of Opinions)

Dear Sir / Madam,

Upon reviewing the proposed GST system due to be implemented in Hong Kong, I would like to express my views on this proposal which are based on my previous experience with both the initial scoping of the GST framework, as well as the implementation of GST.

I have been involved in the projects related to the implementation of GST for Australia when it was being launched in July 2000, and this is the most recent example to demonstrate the implications on the economy and the daily life of its citizens.

Does the HK social infrastructure ready for GST?

In comparison with HK, Australia has a different social welfare system whereby there are more social benefits being offered to its citizens such as medical subsidy, pension etc. With GST being implemented, the additional costs of these expenditures were not being borne by the general public and however it was borne by the government itself. Therefore, when the GST was implemented in Australia back in 2000, there were a list of services being excluded from the scope such as Medical services, education, and services offered by other government departments.

HK is also known as the shopping centre globally, and it would cause a downturn in tourism since "shopping" is a major selling point in order to attract overseas visitors. Note that Australia has a lot of selling points (other than shopping) to attract visitors, and therefore the HK government must consider this important aspect going forward.

Further, Australia has also abolished its Sales Tax as well as other indirect taxes in order to compensate for the 10% GST being implemented. Unless HK has similar arrangements such as reducing the petrol taxes and other indirect taxes currently in the tax system, it is quite difficult to convince the public on this idea.

Cost of Implementation and Compliance

This is a very important aspect of the proposed implementation. It costs the Australian economy more than 1% of its GDP in order for all eligible business organisations to implement GST and to ensure they are compliance with the GST regulations.

While there are a large number of small to medium businesses in HK, the compliance costs for GST will force a lot of business to close down. Please note that the implementation costs involved reconfiguring all financial systems to capture the correct data for GST, and additional resources will be required to administer GST reporting on a timely basis (ie for example – Large companies in Australia are required to perform GST returns on a monthly basis, whereas small to medium companies are required to perform GST returns on a quarterly basis) and compliance with the tax regulations.

Further, from observation the financial systems and administrative processes for the major businesses for HK are actually quite behind from most of the western countries, therefore

GST implementation will not work as the system infrastructure of most companies in HK are not ready to cater for this change.

From above, it seems that the "costs" are currently outweigh the "benefits" of the proposed implementation of GST, and even though the government are seeking a more stable tax revenue stream, it should consider other aspects such as restructuring the current tax framework specifically on corporate taxations as a starting point.

Thank you for your attention.

Kind Regards
Ken C.