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

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 Urgent Return Receipt

<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" /> Dear Henry,  
 One of the valid objections against your proposed GST is the unfair tax rate on the poorer sector as demonstrated below:

|                    | The poor's     | The higher income |
|--------------------|----------------|-------------------|
|                    | monthly income |                   |
|                    | HK\$5,000.00   | HK\$100,000.00    |
| Monthly spending % | 100%           | 85%               |
| Actual spending    | HK\$5,000.00   | HK\$85,000.00     |
| GST paid thereon   | 5% HK\$250.00  | HK\$4,250.00      |
| Actual Tax rate    | 5%             | 4.25%             |

The poor have not alternative but to spend most if not all their income but the higher income people can afford to have some savings and therefore pay a lower GST tax rate if the denominator is taken as their monthly income.

Another problem with GST is the inevitable GST induced inflation rate in the year of implementation. The Australian experience in introducing GST has to be learnt. In that year, not only was the inflation rate increased, but the economy's spending pattern was invariably disturbed. The Australians bought more expensive commodities eg cars, jewelries and even built more houses in the year prior to the year of GST. In the GST year, there was a great dwindling in the overall spending and hence affected the economy tremendously.

Bearing in mind the above criticisms and draw back of GST, I would like you to consider the following **model of stratified GST** (actual figures and tax rates to be changed as you think fit);

Assuming you propose to introduce GST in the year of 2011, GST should only be imposed on all goods and services with value above HK\$50,000 from the year 2007 at the following tax rate as follows:

|      |    |
|------|----|
| 2007 | 1% |
| 2008 | 2% |
| 2009 | 3% |
| 2010 | 4% |
| 2011 | 5% |

From 2011 onwards, the GST rate should remain at 5% for at least 5 years. Tourists are entitled to refund of GST paid and the higher income taxpayers can claim for set-off their GST paid against their Salaries tax capped at a ceiling of say 50% of their tax bills.

The beauties of this model are as follows:

1. The lower income group cannot claim that they are taxed as if they are the rich for

the simple reason that if they can afford to spend \$50,000 or more one-off, they should not be regarded as the poor and should not complain about the GST paid.

2. The gradual tax rate would ease the interruption of the spending mode of people in the years of GST implementation.

3. Only the larger business entities are affected and need to register for GST payment. They have lesser difficulty in absorbing the accounting costs of GST work.

4. The higher income taxpayers feel less aggrieved when they can claim set-off of the GST paid against their salaries tax liabilities.

Submitted for your consideration please.

Regards

A retired FCPA